

Original

Trustpoint
Hospital LLC

CN1606-024



JUN 15 '16 4:10:57

**CERTIFICATE OF NEED
APPLICATION**

for

The Addition of 88 Hospital Beds

by

**TrustPoint Hospital, LLC
1009 North Thompson Lane
Murfreesboro (Rutherford County), Tennessee 37129**

**STATE OF TENNESSEE
HEALTH SERVICES AND DEVELOPMENT AGENCY
500 Deaderick Street
Suite 850
Nashville, Tennessee 37243
615/741-2364**

FILING DATE: June 15, 2016

SECTION A: APPLICANT PROFILE

1. Name of Facility, Agency or Institution

TrustPoint Hospital, LLC

Name

1009 North Thompson Lane

Street or Route

Rutherford

County

Murfreesboro,

City

TN

State

37129

Zip Code

2. Contact Person Available for Responses to Questions

E. Graham Baker, Jr.

Name

Attorney

Title

Anderson and Baker

Company Name

graham@grahambaker.net

e-mail address

2021 Richard Jones Road, Suite 120

Street or Route

Nashville,

City

TN

State

37215

Zip Code

Attorney

Association with Owner

615/370-3380

Phone Number

615/221-0080

Fax Number

3. Owner of the Facility, Agency, or Institution

Acadia Healthcare Company, Inc.

Name

615/861-6000

Phone Number

6100 Tower Circle, Suite 1000

Street or Route

Williamson

County

Franklin,

City

TN

State

37067

Zip Code

4. Type of Ownership of Control (Check One)

A. Sole Proprietorship

B. Partnership

C. Limited Partnership

D. Corporation (For-Profit)

 X

E. Corporation (Not-for-Profit)

F. Governmental (State of Tenn.
or Political Subdivision)

G. Joint Venture

H. Limited Liability Company

I. Other (Specify)

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See Attachment A.4.

SECTION A:

APPLICANT PROFILE

Please enter all Section A responses on this form. All questions must be answered. If an item does not apply, please indicate "N/A". *Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment.*

Section A, Item 1: Facility Name must be applicant facility's name and address must be the site of the proposed project.

Response: The Applicant for this Certificate of Need Application is TrustPoint Hospital, LLC (formerly SeniorHealth of Rutherford, LLC, name changed January 31, 2013), 1009 North Thompson Lane, Murfreesboro (Rutherford County), Tennessee 37129. The Applicant is 100% owned by FENX Healthcare, LLC, 1009 North Thompson Lane, Murfreesboro (Rutherford County), Tennessee 37129. FENX Healthcare, LLC is 100% owned by Polaris Hospital Holdings, LLC. Acadia Healthcare Company, Inc., in turn, owns 100% of Polaris Hospital Holdings, LLC.

The Facility Name is TrustPoint Hospital, LLC, which is the applicant facility's name, and 1009 North Thompson Lane, Murfreesboro (Rutherford County), Tennessee 37129 is the site of the proposed project.

Section A, Item 3: Attach a copy of the partnership agreement, or corporate charter and certificate of corporate existence, if applicable, from the Tennessee Secretary of State.

Response: The requested documents for the Applicant are included in the application as *Attachment A.4.*

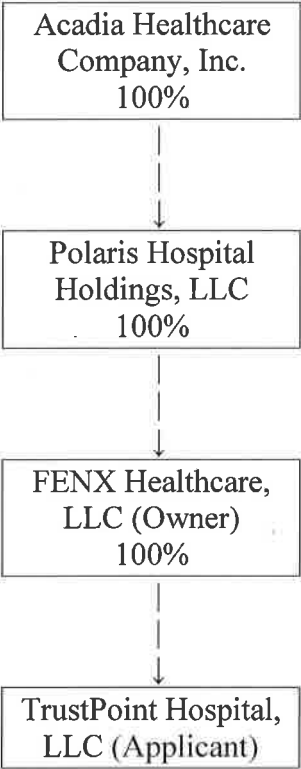
Section A, Item 4: Describe the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% or more ownership interest. In addition, please document the financial interest of the applicant, and the applicant's parent company/owner in any other health care institution as defined in Tennessee Code Annotated, §68-11-1602 in Tennessee. At a minimum, please provide the name, address, current status of licensure/certification, and percentage of ownership for each health care institution identified.

Response: The Applicant for this Certificate of Need Application is TrustPoint Hospital, LLC (formerly SeniorHealth of Rutherford, LLC, name changed January 31, 2013), 1009 North Thompson Lane, Murfreesboro (Rutherford County), Tennessee 37129. The Applicant is 100% owned by FENX Healthcare, LLC, 1009 North Thompson Lane, Murfreesboro (Rutherford County), Tennessee 37129. FENX Healthcare, LLC is 100% owned by Polaris Hospital Holdings, LLC. Acadia Healthcare Company, Inc., in turn, owns 100% of Polaris Hospital Holdings, LLC.

The Applicant does not own any other health care institutions as defined above. Acadia Healthcare Company, Inc. is a provider of inpatient behavioral healthcare services. Acadia Healthcare Company, Inc. operates a network of 587 behavioral healthcare facilities with approximately 17,400 beds in 39 states, the United Kingdom and Puerto Rico. Only six facilities are located in Tennessee (Crestwyn Behavioral Health, Memphis; Village Behavioral Health, Louisville; Mirror Lake Recovery Center, Burns; Volunteer Comprehensive Treatment Center, Chattanooga; Delta Medical Center of Memphis, Memphis; and Trustpoint Hospital, Murfreesboro). Acadia Healthcare Company, Inc. provides behavioral health and addiction services to its patients in a variety of settings, including inpatient psychiatric hospitals, residential treatment centers, outpatient clinics and therapeutic school-based programs.

Acadia Healthcare Company, Inc.'s behavioral health treatment facilities specialize in helping children, teenagers, adults, and seniors suffering from mental health disorders, alcohol and drug addiction, and specialty medical conditions.

See the following ownership chart:



Section A, Item 5: For new facilities or existing facilities without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract.

Please describe the management entity's experience in providing management services for the type of the facility, which is the same or similar to the applicant facility. Please describe the ownership structure of the management entity.

Response: The Applicant is managed by itself.

Section A, Item 6: For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements must include anticipated purchase price. Lease/Option to Lease Agreements must include the actual/anticipated term of the agreement and actual/anticipated lease expense. The legal interests described herein must be valid on the date of the Agency's consideration of the certificate of need application.

Response: Originally, TrustPoint Hospital, LLC (formerly, SeniorHealth of Rutherford, LLC) was approved (CN0610-089AE) as a 60 bed general hospital, providing 9 Medical Detox beds, 24 Psychiatric beds (12 adult + 12 geriatric), and 27 Rehab beds. The Applicant was approved (CN1502-006A) to increase to 129 total beds, but not all of these beds are currently operational. The Applicant completed Phase I of that application (as explained in that application and in subsequent status reports to the HSDA), and had planned on completing Phase II (the final phase) of the project this summer. However, the facility was purchased by Acadia Healthcare Company, Inc. in the Spring of 2016, and the new owner delayed implementation of the final phase of that CON following an assessment of services in the area. The decision was reached to delay that final phase and file this application.

The land for the original facility is still under lease with NHI-REIT of Tennessee, LLC. A copy of the lease is included as *Attachment A.6*. A letter from the owner of the realty showing the terms of the existing lease is included as *Attachment A.6.Overview*, and a copy of the title to the property is included as *Attachment A.6.Title*. Finally, *Attachment A.6.License Agreement* further proves site control by the Applicant of the site for the new construction.

5. Name of Management/Operating Entity (If Applicable)

N/A
Name _____

Street or Route _____ County _____

City _____ State _____ Zip Code _____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

6. Legal Interest in the Site of the Institution (Check One)

- | | | | |
|-----------------------------|----------|--------------------|-------|
| A. Ownership | _____ | D. Option to Lease | _____ |
| B. Option to Purchase | _____ | E. Other (Specify) | _____ |
| C. Lease of <u>99</u> Years | <u>X</u> | | _____ |

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See Attachment A.6., etc.

7. Type of Institution (Check as appropriate--more than one response may apply.)

- | | | | |
|--|----------|--|-------|
| A. Hospital | <u>X</u> | I. Nursing Home | _____ |
| B. Ambulatory Surgical Treatment Center (Multi-Specialty) | _____ | J. Outpatient Diagnostic Center | _____ |
| C. ASTC | _____ | K. Recuperation Center | _____ |
| D. Home Health Agency | _____ | L. Rehabilitation Facility | _____ |
| E. Hospice | _____ | M. Residential Hospice | _____ |
| F. Mental Health Hospital | _____ | N. Non-Residential Methadone Facility | _____ |
| G. Mental Health Residential Treatment Facility | _____ | O. Birthing Center | _____ |
| H. Mental Retardation Institutional Habilitation Facility (ICF/MR) | _____ | P. Other Outpatient Facility (Specify) _____ | _____ |
| | | Q. Other (Specify) _____ | _____ |

8. Purpose of Review (Check as appropriate--more than one response may apply.)

- | | | | |
|---|----------|---|------------|
| A. New Institution | _____ | H. Change In Bed Complement (Please note the type of change by underlining the appropriate response: <u>Increase</u> , <u>Decrease</u> , <u>Designation</u> , <u>Distribution</u> , <u>Conversion</u> , <u>Relocation</u>) | <u>X</u> * |
| B. Replacement/Existing Facility | _____ | I. Change of Location | _____ |
| C. Modification/Existing Facility | <u>X</u> | J. Other (Specify) _____ | _____ |
| D. Initiation of Health Care Service as defined in TCA §68-11-1607(4) | _____ | | _____ |
| E. Specify _____ | _____ | | _____ |
| F. Discontinuance of OB Services | _____ | | _____ |
| G. Acquisition of Equipment | _____ | | _____ |

* various departments will change bed counts and locations, as discussed in the application

9. Bed Complement Data

Please indicate current and proposed distribution and certification of facility beds.

Response: Except for Licensed and Total line, the chart below represents STAFFED beds.

	Current Beds		Staffed	Beds	TOTAL
	Licensed	CON*	Beds	Proposed	Beds at Completion
A. Medical (Detox)	10	+8	10		18
B. Surgical					
C. Long-Term Care Hospital					
D. Obstetrical					
E. ICU/CCU					
F. Neonatal					
G. Pediatric					
H. Adult Psychiatric	44	+15	44	+52	111
I. Geriatric Psychiatric	28	+8	28		36
J. Child/Adolescent Psychiatric				+28	28
K. Rehabilitation	19	-3	19	+8	24
L. Nursing Facility (non-Medicaid Certified)					
M. Nursing Facility Level 1 (Medicaid only)					
N. Nursing Facility Level 2 (Medicare only)					
O. Nursing Facility Level 2 (dually-certified)					
P. ICF/MR					
Q. Adult Chemical Dependency					
R. Child & Adolescent Chemical Dependency					
S. Swing Beds					
T. Mental Health Residential Treatment					
U. Residential Hospice					
TOTAL	101	28	101	+88	217

* CON Beds approved but not yet in service

Item J above: 14 Child Psychiatric Beds plus 14 Adolescent Beds

Another 32 residential beds, not subject to CON review, will be constructed to hospital standards.

10.	Medicare Provider Number	440231
	Certification Type	Hospital
	Medicare Provider Number	44S231
	Certification Type	Psychiatric Distinct Unit
	Medicare Provider Number	44T231
	Certification Type	Rehab Distinct Unit

11.	Medicaid Provider Number	0440231
	Certification Type	Hospital
	Medicaid Provider Number	044S231
	Certification Type	Psychiatric Distinct Unit
	Medicaid Provider Number	044T231
	Certification Type	Rehab Distinct Unit

12. If this is a new facility, will certification be sought for Medicare and/or Medicaid?

Response: This is not a new application, and the Applicant already provides Medicare and/or Medicaid.

13. *Identify all TennCare Managed Care Organizations/Behavioral Health Organizations (MCOs/BHOs) operating in the proposed service area. Will this project involve the treatment of TennCare participants? Yes If the response to this item is yes, please identify all MCOs/BHOs with which the applicant has contracted or plans to contract. Discuss any out-of-network relationships in place with MCOs/BHOs in the area.*

Response: Please see *Attachment A.13*.

NOTE: *Section B is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. Section C addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care. Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.*

SECTION B: PROJECT DESCRIPTION

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

Response: Trustpoint Hospital, LLC, 1009 North Thompson Lane, Murfreesboro, TN 37129 ("Applicant"), a subsidiary of Acadia Healthcare Company Inc., 6100 Tower Circle, Suite 1000, Franklin, TN 37067, files this Certificate of Need application for the addition of eighty-eight (88) hospital beds, as follows: Adult Psychiatric Beds will increase from fifty-nine (59) to one hundred eleven (111) beds; Geriatric Psychiatric Beds will remain at thirty-six (36) beds; Medical Detoxification beds will remain at eighteen (18) beds; Physical Rehabilitation beds will increase from sixteen (16) beds to twenty-four (24) beds; Child Psychiatric Beds will increase from no beds to fourteen (14) beds; and Adolescent Psychiatric Beds will increase from no beds to fourteen (14) beds; with total beds at the Applicant increasing from one hundred twenty-nine (129) beds to two hundred seventeen (217) beds. An approximate 119,500 Gross Square Feet new building will be constructed, plus an approximate 4,500 Gross Square Feet covered connector to the existing facility, and an additional approximate 3,372 Gross Square Feet will be added to the existing facility. The requested beds will be licensed by the Tennessee Department of Health as hospital beds, as are the already-approved beds at the Applicant's hospital. In addition to these eighty-eight (88) hospital beds, there will be thirty-two (32) residential care beds constructed in the new building, half (16 beds) for adolescents and half (16 beds) for children. These thirty-two (32) residential beds are not subject to Certificate of Need review, and will be licensed by the Tennessee Department of Mental Health and Substance Abuse Services. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will continue to serve Medicare, Medicaid, commercially insured, and private-pay patients. The estimated project cost is anticipated to be \$57,275,105, plus a filing fee of \$45,000.00.

The Applicant is the only provider of psychiatric services and physical medicine rehabilitation services in its primary service area of Rutherford and Bedford County. The closest psychiatric beds are located in Cannon, Davidson, Williamson, and Wilson Counties. *Attachment B.I.A* lists inpatient psychiatric beds contiguous to our service area. Rehab bed utilization for the same facilities contiguous to our service area is reported on *Attachment B.I.B*. Please note that due to inconsistencies in Joint Annual Reports, some of these utilization figures are our best estimate of utilization at these nine facilities.

The total cost of this project (\$57,275,105) amounts to an average total cost of \$477,293 per bed (88 hospital beds plus 32 residential beds). Construction cost of \$40,988,716 results in an average

construction cost of \$341,573 per bed. Patient charges will not increase as a result of the approval of this application. The Applicant has sufficient funds for this project.

Attachment B.I.C lists payer sources by category for the Applicant, from opening through March, 2016. The Applicant anticipates further payer mix will be similar to this chart. The service line percentages are not expected to change significantly as a result of this project. We do expect the percentage of Medicaid and Self Pay/Unfunded admissions to increase on a house-wide basis due to the relative growth in psychiatric services resulting from this proposed bed conversion.

Since there are no other psychiatric beds or physical medicine rehabilitation beds located in the service area and no other providers have applied for such beds in the service area, the approval of this application will contribute to the orderly development of health care in the area.

Initial staffing is available, and additional staff can be secured through the Applicant's affiliations, including Belmont University, Eastern Tennessee State University, Middle Tennessee State University, Motlow College, Tennessee State University, and Volunteer State Community College. The Applicant's new owner has a wealth of affiliations from which the hospital may draw.

II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

- A. Describe the construction, modification and/or renovation of the facility (exclusive of major medical equipment covered by T.C.A. § 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of \$5 million) and other facility projects (construction cost in excess of \$2 million) should complete the Square Footage and Cost per Square Footage Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.**

If the project involves none of the above, describe the development of the proposal.

Response: Trustpoint Hospital, LLC, 1009 North Thompson Lane, Murfreesboro, TN 37129 ("Applicant"), a subsidiary of Acadia Healthcare Company Inc., 6100 Tower Circle, Suite 1000, Franklin, TN 37067, files this Certificate of Need application for the addition of eighty-eight (88) hospital beds, as follows: Adult Psychiatric Beds will increase from fifty-nine (59) to one hundred eleven (111) beds; Geriatric Psychiatric Beds will remain at thirty-six (36) beds; Medical Detoxification beds will remain at eighteen (18) beds; Physical Rehabilitation beds will increase from sixteen (16) beds to twenty-four (24) beds; Child Psychiatric Beds will increase from no beds to fourteen (14) beds; and Adolescent Psychiatric Beds will increase from no beds to fourteen (14) beds; with total beds at the Applicant increasing from one hundred twenty-nine (129) beds to two hundred seventeen (217) beds. An approximate 119,500 Gross Square Feet new building will be constructed, plus an approximate 4,500 Gross Square Feet covered connector to the existing facility, and an additional approximate 3,372 Gross Square Feet will be added to the existing facility. The requested beds will be licensed by the Tennessee Department of Health as hospital beds, as are the already-approved beds at the Applicant's hospital. In addition to these eighty-eight (88) hospital beds, there will be thirty-two (32) residential care beds constructed in the new building, half (16 beds) for adolescents and half (16 beds) for children. These thirty-two (32) residential beds are not subject to Certificate of Need review, and will be licensed by the Tennessee Department of Mental Health and Substance Abuse Services. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will continue to serve Medicare, Medicaid, commercially insured, and private-pay patients. The estimated project cost is anticipated to be \$57,275,105, plus a filing fee of \$45,000.00.

Since there are no other psychiatric beds or physical medicine rehabilitation beds located in the service area and no other providers have applied for such beds in the service area, the approval of this application will contribute to the orderly development of health care in the area. The Applicant feels it is important to note that Murfreesboro is the thirteenth (13th) fastest growing city in the entire nation. The increasing

population dictates that providers of health care constantly monitor the needs of their respective service areas, and adjust services as needed.

Currently, the Applicant operates 72 psychiatric beds (44 Adult plus 28 Geriatric) at our hospital, but is approved for 95 psychiatric beds (59 Adult plus 36 Geriatric). The Applicant was approved (CN1502-006A) to increase to 129 total beds, but not all of these beds are currently operational. The Applicant completed Phase I of that application (as explained in that application and in subsequent status reports to the HSDA), and had planned on completing Phase II (the final phase) of the project this summer. However, the facility was purchased by Acadia Healthcare Company, Inc. in the Spring of 2016, and the new owner delayed implementation of the final phase of that CON following an assessment of services in the area. The decision was reached to delay that final phase and file this application.

There are no other psychiatric beds in our service area. The closest psychiatric beds are located in Davidson, Cannon, Williamson, and Wilson Counties. *Attachment B.I.A* lists inpatient psychiatric beds contiguous to our service area. It is important to note that patient origin data indicates that approximately 45% of our patients originate from outside our primary service area. Taking this into consideration, the unmet need for adult inpatient psychiatric beds will increase, as explained later in this application.

Currently, we are approved to reduce our 19 rehab bed unit to 16 beds. The assessment referenced earlier indicated a need for additional rehab beds at our hospital. This application, if approved, will increase our rehab beds from 16 to 24. The closest rehabilitation beds are located in Davidson, Cannon, Williamson and Wilson Counties. *Attachment B.I.B* lists inpatient rehabilitation beds contiguous to our service area.

Please note that due to inconsistencies in Joint Annual Reports, some of the utilization figures on both *Attachment B.I.A* and *Attachment B.I.B* are our best estimate of utilization at these nine facilities.

An approximate 119,500 GSF new building will be constructed which will contain most of the new beds being requested. There will also be an approximate 3,372 GSF addition to the existing hospital (which will house an additional 7 rehab beds, plus an approximate 4,500 GSF covered connector will be added between the new building and the existing hospital.

The total cost of this project (\$57,275,105) amounts to an average total cost of \$477,293 per bed (88 hospital beds plus 32 residential beds). Construction cost of \$40,988,716 results in an average construction cost of \$341,573 per bed, and \$321.81 per GSF (\$40,988,716 construction costs divided by 127,372 GSF). Patient charges will not increase as a result of the approval of this application. The Applicant has sufficient funds for this project.

According to the HSDA website, Hospital Renovation Cost Per Square Foot Years: 2013 – 2015 indicates that 1st, Median, and 3rd Quartile amounts average \$244.85, \$308.43, and \$374.32. Our cost of \$321.81 (based on construction costs) shows that our project is financially feasible. Please see *Attachment B.II.A*.

B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

RESPONSE:

Services

Current Adult Psychiatry Service: The adult psychiatry program is comprised of a two treatment units (31 bed and 13 bed) providing inpatient mental health and substance abuse services for adults age 18 to 64 with a primary acute psychiatric diagnosis as defined by the Diagnostic and Statistical Manual of Mental Disorders, 5th Edition (American Psychiatric Association, 2013). Patients on the 31 bed unit are treated in a mixed milieu without differentiation by diagnostic presentation or symptom severity. Patients on the 13 bed unit are treated for disorders affecting mood.

Proposed Adult Psychiatry Service: The adult psychiatry program would comprise four treatment units with a combined 111 beds providing inpatient mental health and substance abuse services for adults age 18 to 64. The first treatment unit will be 31 beds (existing Adult Psychiatry unit), specializing in the care of adult psychiatric patients with *severe* mental illness requiring highly intensive care (i.e., psychiatric intensive care unit) to manage and treat disorders of mood, thought, and behavior and who otherwise would be referred to Middle Tennessee Mental Health Institute (MTMHI) or other similar institutions. The second treatment unit will be 28 beds (existing Geriatric Psychiatry unit), specializing in the care of adult psychiatric patients with *severe* mental illness (e.g., psychosis, thought disorders, developmental disabilities, imminent risk of danger to self or others). The third treatment unit will be 28 beds, specializing in the care of adult psychiatric patients with *serious* mental illness (e.g., mood disorders, and admission under voluntary and involuntary status). The fourth treatment unit will be 24 beds, specializing in the care of co-occurring and specialty disorders (i.e., post-traumatic stress disorder, addictions, eating disorders, obsessive-compulsive disorders, etc.). All four units will accept voluntary and involuntary admissions pursuant to Tennessee Code Annotated 33-6-404.

By separating the adult patient populations by major diagnostic classifications and severity of illness, TrustPoint Hospital will be better able to provide care that is tailored to the individual needs of the patients in an environment that is safe, efficient, and reliable. This change will also allow TrustPoint Hospital to expand its reach to serve a broader cross section of the community. Currently, significant numbers of adult psychiatric patients are denied access to care due to lack of bed availability, lack of clinically appropriate bed availability, clinical acuity of the patient population, and timing of bed availability related to discharge and admission patterns (See *Attachment B.II.B.1: Admission and Denial Statistics Adult Psychiatry*).

Researchers Hankin, Bronstone, and Koran (2011) found that psychiatric patients with psychosis and other forms of thought disorder present a high risk for acts of violence against themselves and others. The nature of the patient's illness, together with the potential triggers resulting in risk for harm, support the need for distinct treatment units specific to the needs of varied populations (Hankin et al., 2011). Further, the changes proposed here will support the long-term population growth in Rutherford and Bedford Counties, and the needs of surrounding counties that rely on TrustPoint Hospital for inpatient psychiatric services (See *Attachment B.II.B.2: Rutherford County Population Census Growth and Projections*; See *Attachment B.II.B.3: Bedford County Population Growth and Projections*).

Current Geriatric Psychiatry Service: The geriatric psychiatry program is comprised of a single 28 bed treatment unit providing inpatient mental health and substance abuse services for adult patients age 65 and over with a primary acute psychiatric diagnosis as defined by the Diagnostic and Statistical Manual

of Mental Disorders, 5th Edition (American Psychiatric Association, 2013). The majority of patients present for admission with the primary psychiatric disorder and one or more physical medicine comorbidities (e.g., dehydration, diabetes, hypertension, limited mobility, physical deconditioning, etc.) requiring primary medicine evaluation and management. The geriatric psychiatry unit is on the hospital's second floor, adjacent to the existing 31 bed adult psychiatry unit.

Proposed Geriatric Psychiatry Service: The geriatric psychiatry program will be relocated to the new facility addition and operate under the 36 beds approved pursuant to CN1502-006A.

Current Physical Medicine/Rehabilitation Service: The physical medicine/rehabilitation program is comprised of a single 19 bed treatment unit on the first floor of the hospital. Patients admitted to this program suffer a range of physical disabilities and/or traumas that require acute inpatient medical and rehabilitation care to restore functioning and optimal independence. Typical reasons for admission include, but are not limited to, cerebral vascular accident (i.e., stroke), motor vehicle accident, traumatic brain injury, spinal cord injury, multiple traumas, etc. These patients require complex medical care and active physical, occupational, and speech therapies to support their recovery.

Proposed Physical Medicine/Rehabilitation Service: The physical medicine/rehabilitation program will remain on the first floor of the existing facility and occupy 24 beds. The program will relocate to the 17 room unit currently occupied by the 10 bed (9 room) Medical Psychiatry/Detox and the 13 bed (8 room) adult psychiatric unit. This change in location will allow for the addition of 7 beds under the new construction (Note: CN1502-006A reduced physical medicine/rehabilitation beds to 16 based on the then existing footprint of the hospital). This new CON requests that the physical medicine/rehabilitation beds be increased from 16 to 24 beds as a result of the proposed build that can support the additional beds and patient demand. All rooms will be single occupancy. Costs associated with this change are incorporated in the general construction budget.

Current Medical Psychiatry/Detox: The medical psychiatry/detox program is comprised of 10 beds on the first floor of the Hospital. Approval has already been granted to expand this program to 18 beds (CN1502-006A). Patients admitted to this program suffer a primary medical condition and an active psychiatric illness and/or substance abuse condition requiring medical treatment to stabilize and resolve the co-morbid conditions. Patients are medically co-managed by a primary care physician and psychiatrist/addictionologist. The treatment team consists of physicians, medical-surgical nurses with additional training in psychiatry, social workers, therapists, and other multi-disciplinary clinical team members. The medical psychiatry/detox program is unique in Tennessee as a service that integrates medicine and psychiatry to care for individuals with complex health needs in an integrated and safe environment. The medical psychiatry/detox program accepts patients on a voluntary basis or on psychiatric detainment pursuant to Tennessee Code Annotated 33-6-404.

Proposed Medical Psychiatry/Detox: The medical psychiatry/detox program will expand from 10 to 18 beds pursuant to CN1502-006A, moving to the space currently occupied by the physical medicine/rehabilitation program. There are no additional beds required for this change of unit location. Costs associated with this change are incorporated in the general construction budget.

Proposed Pediatric Psychiatry: There are currently no inpatient pediatric psychiatry services in Rutherford and Bedford counties. Patients seeking care for this service are routinely held in inpatient medical facilities and hospital emergency departments for days to weeks pending inpatient psychiatry admission. Far too frequently, these vulnerable children and adolescents are transferred for psychiatric admission to hospital as far away as Georgia, Mississippi, Kentucky, and elsewhere. It is a critical gap in service delivery that must be remedied. The Hospital proposes to build, as part of its new construction, 28

beds dedicated to this population (14 child beds/14 adolescent beds). The pediatric psychiatry unit will consist of distinct and separate space for child and adolescent services.

Proposed Child and Adolescent Residential Treatment Services: To meet the integrated care needs of child and adolescent patients within their home community, the Hospital proposes to build 32 beds designated as residential treatment for patients with severe and prolonged mental health and substance use and abuse disorders. The residential treatment beds will comprise 16 child beds and 16 adolescent beds. The two programs will occupy distinct space and services for each population.

Other Services Not Requiring CON: To provide fully integrated care for all populations, the Hospital will add the following services to meet the outpatient needs of patients:

1. Psychiatric Partial Hospital Program (PHP)
2. Expanded Psychiatric Intensive Outpatient Programs (IOP)
3. Therapeutic Day School Program for emotionally troubled youth
4. Outpatient Physical Medicine and Rehabilitation services

Population and other demographic data for the service area and for Tennessee is listed in *Attachment C.Need.4.A.*

C. As the applicant, describe your need to provide the following health care services (if applicable to this application):

1. Adult Psychiatric Services
2. Alcohol and Drug Treatment for Adolescents (exceeding 28 days)
3. Birthing Center
4. Burn Units
5. Cardiac Catheterization Services
6. Child and Adolescent Psychiatric Services
7. Extracorporeal Lithotripsy
8. Home Health Services
9. Hospice Services
10. Residential Hospice
11. ICF/MR Services
12. Long-term Care Services
13. Magnetic Resonance Imaging (MRI)
14. Mental Health Residential Treatment
15. Neonatal Intensive Care Unit
16. Non-Residential Methadone Treatment Centers
17. Open Heart Surgery
18. Positron Emission Tomography
19. Radiation Therapy/Linear Accelerator
20. Rehabilitation Services
21. Swing Beds

Response: Adult Psychiatric and Rehabilitation Services: TrustPoint Hospital began operations with the admission of its first patient on September 4, 2012. From its opening through March 31, 2016, the Hospital has treated 10,671 patients. *Attachment B.II.C.1* illustrates total admissions to the Hospital for all service lines, delineated by county of origin. For the inclusive period, 58% of patients identify their residence within Rutherford or Bedford County. Davidson and Coffee Counties comprise the next largest segment of the population seeking treatment at TrustPoint Hospital, with 12% of total admissions. The remaining patients self-report their residence in other counties. However, like Davidson and Coffee Counties, many of those patients are referred to TrustPoint Hospital from other health care providers or service agencies within Rutherford and Bedford County.

Attachment B.II.C.2 illustrates total admissions to adult psychiatry, delineated by county of origin. For the inclusive period of September 4, 2012 through March 31, 2016, adult psychiatry admitted 4,051 patients, with 47% of patients identifying their residence as Rutherford or Bedford County. Consistent with total Hospital admissions, Davidson and Coffee Counties comprise the next largest segment of the population seeking adult psychiatric care at TrustPoint Hospital, with 15% of total admissions. Adult psychiatry admissions routinely cross county lines for, but not limited to, the following reasons: patient choice, facility diversion in other counties, insurance contract requirements, placement by State of Tennessee Mandatory Pre-Screeners pursuant to Tennessee Code 33-6-404, patient's preferred physician, and the transient nature of the mentally ill population.

Attachment B.II.C.3 illustrates total admissions to geriatric psychiatry, delineated by county of origin. For the inclusive period of September 4, 2012 through March 31, 2016, geriatric psychiatry admitted 1,187 patients, with 50% of patients identifying their residence as Rutherford or Bedford County. Consistent with total Hospital admissions, Davidson and Coffee Counties comprise the next largest segment of the population seeking geriatric psychiatry care at TrustPoint Hospital, with 16% of total

admissions. Geriatric psychiatry admissions routinely cross county lines for, but not limited to, the following reasons: patient choice, facility diversion in other counties, insurance contract requirements, placement by Mandatory Pre-Screeners pursuant to Tennessee Code 33-6-404, family preference to be close to loved one, nursing home physician affiliations and the transient nature of the mentally ill population.

Attachment B.II.C.4 illustrates total admissions to physical medicine/rehabilitation, delineated by county of origin. For the inclusive period of September 4, 2012 through March 31, 2016, physical medicine/rehabilitation admitted 981 patients, with 73% of patients identifying their residence as Rutherford or Bedford County. Coffee and Cannon Counties comprise the next largest segment of the population seeking physical medicine/rehabilitation care at TrustPoint Hospital, with 9% of total admissions. Physical medicine/rehabilitation admissions routinely cross county lines for, but not limited to, the following reasons: patient and family choice, insurance contract requirements, physician affiliations, and service provision that best meets the patient's clinical profile.

Attachment B.II.C.5 illustrates total admissions to medical psychiatry/detox, delineated by county of origin. For the inclusive period of July 27, 2014 through March 31, 2016, medical psychiatry/detox admitted 224 patients, with 51% of patients identifying their residence as Rutherford or Bedford County. Consistent with total Hospital admissions, Davidson and Wilson Counties comprise the next largest segment of the population seeking medical psychiatry/detox care at TrustPoint Hospital, with 14% of total admissions. Medical psychiatry/detox admissions routinely cross county lines for, but not limited to, the following reasons: patient choice, no similar service available in Middle Tennessee, insurance contract requirements, placement by Mandatory Pre-Screeners pursuant to Tennessee Code Annotated 33-6-404, family preference to be close to loved one, and the transient nature of the mentally ill population.

In addition, the following charts are offered and may be referenced later in this application:

Attachment B.II.C.6 – historic occupancy rate by service, by quarter, from opening through the first quarter of 2016'

Attachment B.II.C.7 – projected occupancy rate by service, for Years 1 and 2;

Attachment B.II.C.8 – total psychiatric admissions by month from opening through the first quarter of 2016.

Attachment B.II.C.9 – total adult and geriatric psychiatry admissions by month from opening through the first quarter of 2016.

Attachment B.II.C.10 – total psychiatry admissions trended by month from opening through December, 2018;

Attachment B.II.C.11 – total adult and geriatric psychiatry admissions trended by month from opening through December 2018;

Attachment B.II.C.12 – total physical medicine/rehabilitation admissions by month from opening through the first quarter of 2016;

Attachment B.II.C.13 – total physical medicine/rehabilitation admissions trended by month from opening through December 2018;

Attachment B.II.C.14 – total medical psychiatry/detox admissions by month from opening through the first quarter 2016;

Attachment B.II.C.15 – total medical psychiatry/detox admissions trended by month from opening through December 2018;

Attachment B.II.C.16 – psychiatry average daily census by month from opening through the first quarter 2016;

Attachment B.II.C.17 – physical medicine/rehabilitation average daily census by month from opening through the first quarter 2016;

Attachment B.II.C.18 – medical psychiatry/detox average daily census by month from opening through the first quarter 2016;

Attachment B.II.C.19 – psychiatry average daily census from opening with projection through December 2018;

Attachment B.II.C.20 – physical medicine/rehabilitation average daily census from opening with projection through December 2018; and

Attachment B.II.C.21 – medical psychiatry/detox average daily census from opening with projection through December 2018.

D. Describe the need to change location or replace an existing facility.

Response: N/A.

E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of \$1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:

1. For fixed-site major medical equipment (not replacing existing equipment):

a. Describe the new equipment, including:

- 1. Total cost; (As defined by Agency Rule).**
- 2. Expected useful life;**
- 3. List of clinical applications to be provided; and**
- 4. Documentation of FDA approval.**

b. Provide current and proposed schedules of operations.

Response: N/A.

2. For mobile major medical equipment:

- a. List all sites that will be served;**
- b. Provide current and/or proposed schedule of operations;**
- c. Provide the lease or contract cost.**
- d. Provide the fair market value of the equipment; and**
- e. List the owner for the equipment.**

Response: N/A.

3. Indicate applicant's legal interest in equipment (i.e., purchase, lease, etc.) In the case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Response: N/A.

III. (A) Attach a copy of the plot plan of the site on an 8 1/2" x 11" sheet of white paper which must include:

- 1. Size of site (*in acres*)**
- 2. Location of structure on the site; and**
- 3. Location of the proposed construction.**
- 4. Names of streets, roads or highway that cross or border the site.**

Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.

Response:

1. The size of the original medical complex approximates 6.09 Acres. An additional approximate 12 adjacent Acres has been added. Please see attached plot plan (*Attachment B.III.A.1*).
2. Please see *Attachment B.III.A.1*. This attachment indicates the location of the existing building on the site.
3. Please see *Attachment B.III.A.1*. This attachment indicates the location of the proposed construction on the site.
4. The main entrance to Trustpoint Hospital is on Thompson Lane, and the site is bounded by Wilkinson Pike (formerly known as Manson Pike).

(B) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Response: The main entrance to Trustpoint Hospital is on Thompson Lane, and the site is bounded by Wilkinson Pike (formerly known as Manson Pike). Thompson Lane is an area of major construction and expansion in the Murfreesboro area, and the site is across the street from the new St. Thomas, Rutherford Hospital. The site is 2 miles from I-24, 0.8 miles from US-41, 0.4 miles from Medical Center Parkway, and is readily accessible for patients, their families and friends, and providers.

IV. Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. on an 8 1/2" x 11" sheet of white paper.

NOTE: DO NOT SUBMIT BLUEPRINTS. Simple line drawings should be submitted and need not be drawn to scale.

Response: Please see *Attachment B.IV* (10 pages) for a footprint of proposed construction. The first 8 pages show the approximate 119,500 GSF new building, and the last 2 pages show the approximate 3,372 GSF addition to the existing building.

V. For a Home Health Agency or Hospice, identify:

- 1. Existing service area by County;**
- 2. Proposed service area by County;**
- 3. A parent or primary service provider;**
- 4. Existing branches; and**
- 5. Proposed branches.**

Response: N/A.

SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), “no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care.” The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines for Growth), developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. Please type each question and its response on an 8 1/2" x 11" white paper. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate “Not Applicable (N/A).”

QUESTIONS

NEED

1. Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee’s Health: Guidelines for Growth.
 - a. Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.

Response: Please see *Attachment Psychiatric Inpatient Services*

Further, the State Health Plan lists the following Five Principles for Achieving Better Health, and are based on the Division's enacting legislation:

1. The purpose of the State Health Plan is to improve the health of Tennesseans;
2. Every citizen should have reasonable access to health care;
3. The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system;
4. Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers; and
5. The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.

Responses to these five Principles are as follows:

1. The Applicant provides inpatient psychiatric care to an area that previously had no such services. According to the state formula, there continues to be a need for psychiatric beds in the service area. Due to the sustained need/demand for rehabilitation beds, that department will increase in size. The

Applicant's goal of continuing to provide these appropriate and needed services is consistent with the State Health Plan, and this project will improve the health of Tennesseans.

The previous application filed by the Applicant stated that, at that time, there was a more pressing need for inpatient psychiatric care than for inpatient physical medicine rehabilitation care. Due to the physical limitations of our existing facility at that time, we attempted to modify the services that we provided without new construction. This meant we would have to decrease our rehabilitation area in order to increase our psychiatric area. Now that our new owner can provide funding for the Applicant to provide necessary services, our inpatient rehab bed unit will increase to 24 beds.

2. The Applicant will continue to provide a service currently not provided by other facilities in the service area, thereby increasing reasonable access to this type of health care for all citizens in the service area.
3. The development of services by the Applicant has always been the result of attempts to meet the needs of Tennesseans. There is an unmet need for inpatient child, adolescent, and adult psychiatric services in the service area. Further, there is an increased need for physical medicine rehabilitation beds in the service area. Therefore, the approval of this application will enhance the "development" of inpatient psychiatric services and inpatient rehabilitation services in the proposed service area.
4. Tennessee is fortunate to have an excellent licensing division of the Department of Health. The Board of Licensing Health Care Facilities provides standards for and monitoring of licensed health care providers. This Applicant will continue to be licensed by the Department of Health and will be certified by Medicare, Medicaid (TennCare), and the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).
5. The Applicant is committed to providing its staff both safe working conditions and continuing education.

b. Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4)(a-c).

Response: N/A.

2. Describe the relationship of this project to the applicant facility's long-range development plans, if any.

Response: On May 27, 2015, Certificate of Need CN1502-006A was approved for TrustPoint Hospital. At the time of filing and approval, that Certificate of Need represented TrustPoint Hospital's full internal capacity to meet the needs of the community for psychiatric and rehabilitation medicine care. In response to this same question under that Certificate of Need filing, TrustPoint Hospital made the following statement: "This Certificate of Need proposal will maximize existing capacity at TrustPoint Hospital. Additional development would require acquisition of new land and/or feasibility studies to determine potential for vertical expansion."

Since that filing, the holding company that owns TrustPoint Hospital has been sold to Franklin, Tennessee based Acadia Healthcare Company, Inc.. Under Acadia Healthcare Company, Inc., TrustPoint Hospital has purchased approximately 12 acres of additional land adjacent to and directly connected to the existing TrustPoint Hospital property. This additional land provides TrustPoint Hospital the ability to expand its campus to provide these proposed, critical, and necessary services to the broader adult and pediatric psychiatric patient populations. This service growth is anticipated to meet the long-term needs of Rutherford and Bedford counties as well as secondary regional demand.

3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. Please submit the map on 8 1/2" x 11" sheet of white paper marked only with ink detectable by a standard photocopier (i.e., no highlighters, pencils, etc.).

Response: The proposed service area for this project is focused primarily in Rutherford and Bedford Counties. Coffee County represents a secondary service area based on historical referral patterns and the lack of disease specific services within that county (i.e., inpatient psychiatry for adults and geriatrics, inpatient physical medicine/rehabilitation, inpatient medical psychiatry/detox, inpatient child and adolescent services, residential treatment for child and adolescent patients, and expanded outpatient services). Davidson County will continue to be a tertiary service area based on Davidson County psychiatric hospital overflow/diversion referrals for inpatient psychiatry, referrals for psychiatry and physical medicine/rehabilitation based on patient requests to be treated closer to home and/or family (i.e., Rutherford and Bedford Counties) and medical psychiatry/detox, a unique service line at TrustPoint Hospital that does not exist in other service areas and hospitals.

Please see *Attachment C.Need.3* for a map of the service area.

4. A. Describe the demographics of the population to be served by this proposal.

Response: Our primary service area is Rutherford and Bedford Counties. The projected total population (2020, respectively), according to the TN Department of Health, is as follows:

Rutherford	339,557
Bedford	49,410
Service Area	388,967

In addition, U.S. Census Bureau data for the U.S., State and our service area is supplied as *Attachment C.Need.4.A.*

B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Response: According to the U.S. Department of Health and Human Services, all of Bedford County is a Medically Underserved Area, and one tract in Rutherford County is a Medically Underserved Area. Further, both Rutherford County and Bedford County have health professional shortage areas. The approval of this project will bring more health care resources to the service area. See *Attachment C.Need.4.B.*

TrustPoint Hospital is licensed as an acute care general hospital with three distinct service lines: adult and geriatric inpatient psychiatry, inpatient physical medicine/rehabilitation and inpatient medical psychiatry/detox. All current service lines treat adults age 18 and over. Approval of the Certificate of Need will add services for pediatric patients and expand the scope of services for adult patients with *severe* and *serious* mental illness and substance abuse disorders. All programs and services will accept and care for patients with commercial, managed care, Medicare, Tri-Care, and TennCare forms of payment. Physical medicine/rehabilitation serves patients with commercial, managed care, Medicare, and Tri-Care forms of payment. Pediatric services will accept and care for patients with commercial, managed care, Medicare, Tri-Care, and TennCare forms of payment. All service lines accept charity/unfunded patients as a function of our mission to serve the broader community in Rutherford and Bedford Counties.

Patients coming to TrustPoint Hospital represent the full cultural, social, economic, and racial cross-section of citizens in Rutherford, Bedford, and surrounding counties. The psychiatry and medical psychiatric/detox populations represent the most vulnerable patients. The United States Department of Health and Human Services (USDHHS) identifies disparity in access to care, care that is safe, efficient, and reliable and stigma associated with mental illness as primary obstacles to improved mental health and general health outcomes nationally (USDHHS, 2014). According to USDHHS (2014), one in seventeen adults suffer a serious and debilitating mental illness that substantially compromises health, wellness, ability to engage in productive living, increased risk of morbidity and premature mortality. For Rutherford and Bedford Counties, these statistics inform that by 2019 nearly 21,000 adult residents will be suffering a serious and debilitating mental illness. As a highly vulnerable segment of our community, the ability to reach these individuals and provide access to care is essential to their well-being and the well-being of our community now and in the future. The USDHHS (2014) addresses the impact of serious mental illness on communities. Among other things, twenty-five percent of all lost time from

work due to disability and premature death are directly tied to serious mental illness (USDHHS, 2014). The impact on the individual, their families, businesses and communities is staggering and resonates as a *call-to-action* to ensure high quality mental health services are available to meet the needs of this at-risk population.

According to USDHHS (2014), the most recent data for prevalence of serious mental illness among the pre-teen and teenage population (12-17 years) indicates that major depression affects 9.1% of the population and requires intensive treatment. Suicide attempts and completed suicides for this same population are a staggering 1.9 per 100 pre-teen and teenagers in the general population. Placing these numbers in perspective, the United States Census Bureau reported that 25% of the population living in Rutherford county, or approximately 74,653 pre-teen and teenagers, and 26.2% of the population living in Bedford County, or 11,838 pre-teen and teenagers, are in this high risk group for major depression and suicide (USCB, 2015). This information translates to combined pre-teen and teenage major depression for both counties of more than 7,870 pre-teens and teenagers and suicide attempts and successful suicides of more than 864 pre-teens and teenagers (USDHHS). These staggering numbers reflect the tremendous need for child and adolescent services for the residents of Rutherford and Bedford counties.

As a leader in health care delivery that considers the whole person, mind, body, and spirit, TrustPoint Hospital provides or arranges a full spectrum of inpatient and outpatient services to meet the clinical needs of its patients, their loved ones, and professional colleagues. In support of this mission, TrustPoint Hospital actively participates with and supports the local chapters of the American Heart Association, Alzheimer's Association, United Way, the Family Center and a host of other important partners that seek to strengthen the health and wellbeing of our community. Additionally, TrustPoint Hospital sponsors various support groups for patients, families, and caregivers to ensure best outcomes and sustained wellness. Located adjacent to St. Thomas Rutherford Hospital, TrustPoint Hospital and St. Thomas Rutherford Hospital have developed a very close and collaborative relationship in which we share best practices, policy development, interventions, staff training, shared medical staff, and community response and action planning in the event of a natural or other disaster. Importantly, the services provided at TrustPoint Hospital are a direct and natural complement to the important and life sustaining services provided at St. Thomas Rutherford Hospital. TrustPoint Hospital and St. Thomas Rutherford Hospital do not, *in any way*, compete for services.

5. Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

Response: There are no inpatient psychiatric services available in our primary service area, except what is provided at our hospital. Please note that it is impossible to obtain utilization and charge information from a general hospital that also offers inpatient psychiatric care. Therefore, *Attachment B.1.A* simply gives a breakdown of existing beds. The chart below, on the other hand, lists those facilities that offer only inpatient psychiatric care, so utilization and patient charge information is available and reported.

There will be no negative impact on existing services, as inpatient psychiatric services are non-existent except for what has already been approved for the Applicant. The closest inpatient psychiatric services to the Applicant are in Davidson, Cannon and Williamson Counties, and this project should not affect those facilities.

Psychiatric Beds Contiguous to Service Area
Average Patient Charges, Per Diem, in Nearest Dollars
Average Occupancy Rate, Rounded to Nearest Percent

<u>Year</u>	<u>Facility</u>	<u>County</u>	<u>Occ</u>	<u>Avg Gross</u>	<u>Avg Deduct</u>	<u>Avg Net</u>
2008	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	77% (not in business)	609	388	221
2009	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	68% 42%	475 1,442	293 704	182 737
2010	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	59% 69%	714 1,526	621 757	93 769
2011	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	54% 74%	686 1,524	545 761	141 763
2012	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	85% 100%	853 1,551	716 783	137 768
2013	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	85% (no report filed)	867	744	123
2014	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	86% 80%	753 1,722	663 919	90 803

TrustPoint Hospital began operations with the admission of its first patient on September 4, 2012. From its opening through March 31, 2016, the Hospital has admitted 10,671 patients. *Attachment B.II.C.1* illustrates total admissions to the Hospital for all service lines, delineated by county of origin. For the inclusive period, 58% of patients identify their residence within Rutherford or Bedford County. Davidson and Coffee Counties comprise the next largest segment of the population seeking treatment at TrustPoint Hospital, with 12% of total admissions. The remaining patients self-report their residence in other counties. However, like Davidson and Coffee Counties, many of those patients are referred to TrustPoint Hospital from other health care providers or service agencies within Rutherford and Bedford County.

Attachment B.II.C.2 illustrates total admissions to adult psychiatry, delineated by county of origin. For the inclusive period of September 4, 2012 through March 31, 2016, adult psychiatry admitted 4,051 patients, with 47% of patients identifying their residence as Rutherford or Bedford County. Consistent with total Hospital admissions, Davidson and Coffee Counties comprise the next largest segment of the population seeking adult psychiatric care at TrustPoint Hospital, with 15% of total admissions. Adult psychiatry admissions routinely cross county lines for, but not limited to, the following reasons: patient

choice, facility diversion in other counties, insurance contract requirements, placement by State of Tennessee Mandatory Pre-Screeners pursuant to Tennessee Code 33-6-404, patient's preferred physician, and the transient nature of the mentally ill population.

Attachment B.II.C.3 illustrates total admissions to geriatric psychiatry, delineated by county of origin. For the inclusive period of September 4, 2012 through March 31, 2016, geriatric psychiatry admitted 1,187 patients, with 50% of patients identifying their residence as Rutherford or Bedford County. Consistent with total Hospital admissions, Davidson and Coffee Counties comprise the next largest segment of the population seeking geriatric psychiatry care at TrustPoint Hospital, with 16% of total admissions. Geriatric psychiatry admissions routinely cross county lines for, but not limited to, the following reasons: patient choice, facility diversion in other counties, insurance contract requirements, placement by Mandatory Pre-Screeners pursuant to Tennessee Code 33-6-404, family preference to be close to loved one, nursing home physician affiliations and the transient nature of the mentally ill population.

Attachment B.II.C.4 illustrates total admissions to physical medicine/rehabilitation, delineated by county of origin. For the inclusive period of September 4, 2012 through March 31, 2016, physical medicine/rehabilitation admitted 981 patients, with 73% of patients identifying their residence as Rutherford or Bedford County. Coffee and Cannon Counties comprise the next largest segment of the population seeking physical medicine/rehabilitation care at TrustPoint Hospital, with 9% of total admissions. Physical medicine/rehabilitation admissions routinely cross county lines for, but not limited to, the following reasons: patient and family choice, insurance contract requirements, physician affiliations, and service provision that best meets the patient's clinical profile.

Attachment B.II.C.5 illustrates total admissions to medical psychiatry/detox, delineated by county of origin. For the inclusive period of July 27, 2014 through March 31, 2016, medical psychiatry/detox admitted 224 patients, with 51% of patients identifying their residence as Rutherford or Bedford County. Consistent with total Hospital admissions, Davidson and Wilson Counties comprise the next largest segment of the population seeking medical psychiatry/detox care at TrustPoint Hospital, with 14% of total admissions. Medical psychiatry/detox admissions routinely cross county lines for, but not limited to, the following reasons: patient choice, no similar service available in Middle Tennessee, insurance contract requirements, placement by Mandatory Pre-Screeners pursuant to Tennessee Code Annotated 33-6-404, family preference to be close to loved one, and the transient nature of the mentally ill population.

In addition, the following charts are offered and may be referenced later in this application:

Attachment B.II.C.6 – historic occupancy rate by service, by quarter, from opening through the first quarter of 2016'

Attachment B.II.C.7 – projected occupancy rate by service, for Years 1 and 2;

Attachment B.II.C.8 – total psychiatric admissions by month from opening through the first quarter of 2016.

Attachment B.II.C.9 – total adult and geriatric psychiatry admissions by month from opening through the first quarter of 2016.

Attachment B.II.C.10 – total psychiatry admissions trended by month from opening through December, 2018;

Attachment B.II.C.11 – total adult and geriatric psychiatry admissions trended by month from opening through December 2018;

Attachment B.II.C.12 – total physical medicine/rehabilitation admissions by month from opening through the first quarter of 2016;

Attachment B.II.C.13 – total physical medicine/rehabilitation admissions trended by month from opening through December 2018;

Attachment B.II.C.14 – total medical psychiatry/detox admissions by month from opening through the first quarter 2016;

Attachment B.II.C.15 – total medical psychiatry/detox admissions trended by month from opening through December 2018;

Attachment B.II.C.16 – psychiatry average daily census by month from opening through the first quarter 2016;

Attachment B.II.C.17 – physical medicine/rehabilitation average daily census by month from opening through the first quarter 2016;

Attachment B.II.C.18 – medical psychiatry/detox average daily census by month from opening through the first quarter 2016;

Attachment B.II.C.19 – psychiatry average daily census from opening with projection through December 2018;

Attachment B.II.C.20 – physical medicine/rehabilitation average daily census from opening with projection through December 2018; and

Attachment B.II.C.21 – medical psychiatry/detox average daily census from opening with projection through December 2018.

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

Response: Very specific actual occupancy data, by service, from opening through March 31, 2016 is provided in attachments provided for sections B.II.B and B.II.C for the application. Some of these charts provide actual occupancy or actual admissions data, usually, by month. Other attachments provide not only historic occupancy rates, but provide projected occupancy trends. Please note that on some of these charts, the projections are statistically derived from the Applicant's actual historical data which is then utilized to create a prospective trend line. Such projections do not account for the expected immediate growth related to increased capacity to serve the adult psychiatric population.

In determining the number of beds requested in this application, the Applicant has considered: (1) its management team's experiences in developing psychiatric hospitals; (2) the time periods of increasing patient volumes in previously underserved areas; (3) the indicated need for psychiatry beds in accordance with the primary service area population and *Guidelines for Growth*; and (4) interviews with multiple individuals, including management personnel at St. Thomas Rutherford Hospital (Murfreesboro), Heritage Medical Center (Shelbyville), psychiatrists with established medical practices in Murfreesboro, several primary care physicians, and counselors at Middle Tennessee State University. Of prime importance was the trending and ramp-up progression that has occurred at TrustPoint Hospital since opening.

The Standards and Criteria of 30 beds per 100,000 formula was utilized. The age bracket in the Department's estimates for ages 15-19 was estimated at being 40% adult (ages 18 and 19, or 2 of the 5 years reported in that bracket). While this estimate is not exact, it is statistically defensible when consistently used, as it was. As a result, approximately 75% of the total population would be considered adult (18 and over), 8.1% of the total population would be considered adolescent (13 to 17), and the remaining 16.9% of the population would be considered child (under 13 years old).

The total population projection for the service area in 2020 is given on the following chart:

**Total Population Estimates: Rutherford and Bedford Counties
2020
Resultant Psychiatric Bed Need**

County	2020
Rutherford	339,557
Bedford	49,410
Total	338,967
Bed Need	102

Source: Tennessee Population Projections, 2010 – 2020, Division of Health Statistics, Tennessee Department of Health; Bed Need based on 30 beds/100,000 population.

Using the population figures in the previous chart, the formula shows that there currently exists a total need for 102 psychiatric beds by 2020. Using the statistics previously mentioned, there would be a resultant need for approximately 77 adult psychiatric beds, plus 9 adolescent psychiatric beds, plus 16 child psychiatric beds. TrustPoint currently operates 72 total psychiatric beds (44 Adult, plus 28 Geriatric).

Statistics from credible reports can be used to measure psychiatric bed need in a given service area. According to a 2010 Substance Abuse and Mental Health Services Administration report on mental health, the use of inpatient treatment for mental health conditions had averaged 0.9% of the U.S. adult population during recent years. Using that percentage and applying it to the 2020 service area adult population of 338,967, there would be 3,051 admissions made to psychiatric hospitals or psychiatric hospital units, and this amount does not include recidivism.

It is important to point out some of the statistics reflected on *Attachment B.II.B.1*. This attachment shows the Admission and Denial Statistics for Adult Psychiatry at our hospital since the first of 2014 through the 1st quarter of 2016. Specifically, note that the last quarter of 2015 plus the first quarter of 2016 shows that the number of non-admissions due to “Diverted – No Bed Available” and “Diverted – Appropriate Referred (No Appropriate Service Line)” totals 1,762 separate and individual patients who have been referred to our facility and were denied admission because we had no space for them. Based on our average length of stay, these admissions denials would have resulted in 73.4 patients (average daily census) in the last quarter of 2015, and 83.1 patients (ADC) in the first quarter of 2016. These are patients that are not receiving care who could have received care had our current expansion requests been in place.

There will be no negative impact on existing services, as inpatient psychiatric services are non-existent except for what has already been approved for the Applicant. The closest inpatient psychiatric services to the Applicant are in Davidson, Cannon and Williamson Counties, and this project should not affect those facilities. Since there are no other hospitals in our primary service area that provide the types of care we provide, the approval of this application will have no effect on any other facilities in our primary service area.

ECONOMIC FEASIBILITY

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.
- All projects should have a project cost of at least \$3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)
- The cost of any lease should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater.
- The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.
- For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.

Response: The Project Costs Chart is completed.

The filing fee amount has been inserted and added.

There are no FMV or lease payments since this the existing building/land has been approved in a prior CON application, and the additional land required for this project is owned by the Applicant's owner.

PROJECT COSTS CHART

A. Construction and equipment acquired by purchase.

1. Architectural and Engineering Fees	\$ 3,317,928
2. Legal, Administrative (Excluding CON Filing Fee), Consultant	100,000
3. Acquisition of Site	4,810,000
4. Preparation of Site	1,100,000
5. Construction Costs (Renovation)	40,988,716
6. Contingency Fund	4,356,345
7. Fixed Equipment (Not included in Construction Contract)	650,000
8. Moveable Equipment (List all equipment over \$50,000)*	1,952,116
9. Other (Specify) _____	
Subsection A Total	\$ 57,275,105

B. Acquisition by gift, donation, or lease.

1. Facility (Inclusive of Building and Land) (FMV)	0
2. Building Only	
3. Land Only	
4. Equipment (Specify) _____	
5. Other (Specify) _____	
Subsection B Total	0

C. Financing costs and fees

1. Interim Financing	
2. Underwriting Costs	
3. Reserve for One Year's Debt Service	
4. Other (Specify) _____	
Subsection C Total	0

D. Estimated Project Cost (A + B + C)	\$ 57,275,105
E. CON Filing Fee	\$ 45,000
F. Total Estimated Project Cost (D + E)	\$ 57,320,105
TOTAL	\$ 57,320,105

2. Identify the funding sources for this project.

- a. Please check the applicable item(s) below and briefly summarize how the project will be financed. (*Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.*)**

- ☐ **A. Commercial loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;**
- ☐ **B. Tax-exempt bonds--Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;**
- ☐ **C. General obligation bonds—Copy of resolution from issuing authority or minutes from the appropriate meeting.**
- ☐ **D. Grants--Notification of intent form for grant application or notice of grant award; or**
- ☒ **E. Cash Reserves--Appropriate documentation from Chief Financial Officer.**
- ☐ **F. Other—Identify and document funding from all other sources.**

Response: This project will be financed by cash reserves. The Applicant has furnished a letter attesting that the Applicant has sufficient assets to implement this project (see *Attachment C.EF.2*).

3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.

Response: An approximate 119,500 GSF new building will be constructed which will contain most of the new beds being requested. There will also be an approximate 3,372 GSF addition to the existing hospital (which will house an additional 7 rehab beds, plus an approximate 4,500 GSF covered connector will be added between the new building and the existing hospital.

The total cost of this project (\$57,275,105) amounts to an average total cost of \$477,293 per bed (88 hospital beds plus 32 residential beds). Construction cost of \$40,988,716 results in an average construction cost of \$341,573 per bed, and \$321.81 per GSF (\$40,988,716 construction costs divided by 127,372 GSF. Patient charges will not increase as a result of the approval of this application. The Applicant has sufficient funds for this project.

According to the HSDA website, Hospital Renovation Cost Per Square Foot Years: 2013 – 2015 indicates that 1st, Median, and 3rd Quartile amounts average \$244.85, \$308.43, and \$374.32. Our cost \$321.81 (based on construction costs) shows that our project is financially feasible. Please see *Attachment B.II.A*.

4. Complete Historical and Projected Data Charts on the following two pages--Do not modify the Charts provided or submit Chart substitutions! Historical Data Chart represents revenue and expense information for the last three (3) years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the Proposal Only (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).

Response: Historical and Projected Data Charts are completed.

HISTORICAL DATA CHART – ENTIRE HOSPITAL

Give information for the last *three (3)* years for which complete data are available for the facility or agency.
The fiscal year begins in January (month).

Response:

	Yr-3 Year Ended 12/31/2015	Yr-2 Year Ended 12/31/2014	Yr-1 Year Ended 12/31/2013
A. Utilization/Occupancy Rate	<u>73 ADC</u>	<u>58 ADC</u>	<u>39ADC</u>
B. Revenue from Services to Patients			
1. Inpatient Services	<u>50,297,478</u>	<u>38,784,819</u>	<u>26,357,276</u>
2. Outpatient Services	<u>1,484,241</u>	<u>1,197,222</u>	<u>276,280</u>
3. Emergency Services	<u>0</u>	<u>0</u>	<u>0</u>
4. Other Operating Revenue (Physician Billings)	<u>1,451,628</u>	<u>585,337</u>	<u>41,694</u>
Gross Operating Revenue	<u>53,233,348</u>	<u>40,567,378</u>	<u>26,675,250</u>
C. Deductions from Operating Revenue			
1. Contractual Adjustments	<u>28,036,103</u>	<u>20,382,388</u>	<u>13,421,286</u>
2. Provision for Charity Care	<u>313,750</u>	<u>214,898</u>	<u>153,464</u>
3. Provision for Bad Debt	<u>1,056,602</u>	<u>270,838</u>	<u>285,701</u>
Total Deductions	<u>29,406,455</u>	<u>20,868,124</u>	<u>13,860,450</u>
NET OPERATING REVENUE	<u>23,826,893</u>	<u>19,699,254</u>	<u>12,814,800</u>
D. Operating Expenses			
1. Salaries and Wages	<u>9,008,023</u>	<u>7,821,859</u>	<u>6,419,752</u>
2. Physician's Salaries and Wages	<u>2,062,060</u>	<u>1,277,965</u>	<u>138,170</u>
3. Supplies	<u>1,571,223</u>	<u>1,381,016</u>	<u>1,004,480</u>
4. Taxes	<u>1,221,021</u>	<u>1,033,214</u>	<u>1,011,174</u>
5. Depreciation	<u>1,490,877</u>	<u>1,457,763</u>	<u>1,360,626</u>
6. Rent	<u>1,348,642</u>	<u>1,332,779</u>	<u>930,754</u>
7. Interest, other than Capital	<u>1,503,180</u>	<u>1,604,334</u>	<u>1,754,543</u>
8. Management Fees:			
a. Fees to Affiliates	<u>83,801</u>	<u>0</u>	<u>0</u>
b. Fees to Non-Affiliates	<u>0</u>	<u>0</u>	<u>0</u>
9. Other Expenses (attached)	<u>4,717,254</u>	<u>4,214,923</u>	<u>3,396,670</u>
Total Operating Expenses	<u>23,006,081</u>	<u>20,123,853</u>	<u>16,016,168</u>
E. Other Revenue (Expenses)-Net (E.H.R. incentives/dietary)	<u>509,359</u>	<u>979,794</u>	<u>1,744,091</u>
NET OPERATING INCOME (LOSS)	<u>1,330,171</u>	<u>555,195</u>	<u>(1,457,277)</u>
F. Capital Expenditures			
1. Retirement of Principal (Paid in Cash)	<u>480,626</u>	<u>274,357</u>	<u>320,614</u>
2. Interest	<u>0</u>	<u>0</u>	<u>0</u>
Total Capital Expenditure	<u>480,626</u>	<u>274,357</u>	<u>320,614</u>
NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	<u>849,545</u>	<u>280,838</u>	<u>(1,777,891)</u>

Other Expenses Historical Data Chart

Item D 9 - Other Expenses	<u>Yr-3</u>	<u>Yr-2</u>	<u>Yr-1</u>
Employee Benefits	\$ 1,187,358	\$ 1,086,906	\$ 730,965
Contract services	2,657,749	2,020,799	1,347,486
Professional Fees	350,706	431,478	618,150
Insurance	209,695	303,207	382,253
Other	311,746	372,533	317,815
Total	\$ 4,717,254	\$ 4,214,923	\$ 3,396,670

PROJECTED DATA CHART

Give information for the two (2) years following the completion of this project. The fiscal year begins in October (month)

	<u>Yr -1</u>	<u>Yr -2</u>	<u>Yr -3</u>
A. Utilization/Occupancy Rate	<u>64 ADC</u>	<u>79 ADC</u>	<u>90 ADC</u>
B. Revenue from Service Patients			
1. Inpatient	\$ 34,996,200	\$ 42,106,400	\$ 47,872,800
2. Outpatient	\$ -	\$ -	
3. Emergency	\$ -	\$ -	
4. Other (Physician Billings)	\$ 1,116,079	\$ 1,351,543	\$ 1,513,890
Gross Operating Revenue	\$ 36,112,279	\$ 43,457,943	\$ 49,386,690
C. Deductions from Operating Revenue			
1. Contractuals	\$ 19,476,790	\$ 23,389,155	\$ 26,018,552
2. Charity Care	\$ 227,475	\$ 273,692	\$ 311,173
3. Bad Debt	\$ 361,057	\$ 435,589	\$ 507,366
Total Deductions	\$ 20,065,322	\$ 24,098,435	\$ 26,837,091
NET OPERATING REVENUE	\$ 16,046,957	\$ 19,359,508	\$ 22,549,599
D. Operating Expenses			
1. Salaries and Wages	\$ 7,538,702	\$ 8,538,310	\$ 9,387,081
2. Physician's Salaries and Wages	\$ 1,272,000	\$ 1,309,350	\$ 1,312,863
3. Supplies	\$ 1,294,000	\$ 1,549,000	\$ 1,847,000
4. Taxes	\$ 1,159,000	\$ 1,241,000	\$ 1,323,000
5. Depreciation	\$ 1,307,500	\$ 1,370,208	\$ 1,437,917
6. Rent	\$ 210,000	\$ 210,000	\$ 211,750
7. Interest, other than Capital	\$ -	\$ -	\$ -
8. Management Fees:			
a. Fees to Affiliates	\$ -	\$ -	\$ -
b. Fees to Non-Affiliates	\$ -	\$ -	\$ -
9. Other Expenses (attached)	\$ 4,702,000	\$ 5,020,000	\$ 5,491,500
Total Operating Expenses	\$ 17,483,202	\$ 19,237,868	\$ 21,011,111
E. Other Revenue (Expenses)-Net (Dietary)	\$ 36,000	\$ 36,000	\$ 36,000
NET OPERATING INCOME (LOSS)	\$ (1,400,245)	\$ 157,640	\$ 1,574,488
F. Capital Expenditures			
1. Retirement of Principal (Paid in Cash)	\$ 300,000	\$ 325,000	\$ 350,000
2. Interest			
Total Capital Expenditures	\$ 300,000	\$ 325,000	\$ 350,000
OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	\$ (1,700,245)	\$ (167,360)	\$ 1,224,488

Other Expenses
Projected Data Chart

Item D 9 – Other Expenses	<u>Yr - 1</u>	<u>Yr - 2</u>	<u>Yr - 3</u>
Employee Benefits	\$ 1,055,000	\$ 1,182,000	\$ 1,285,000
Contract Services	\$ 1,985,000	\$ 2,176,000	\$ 2,450,250
Professional Fees	\$ 372,000	\$ 372,000	\$ 384,000
Insurance	\$ 540,000	\$ 540,000	\$ 564,000
Other	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ 808,250</u>
	\$ 4,702,000	\$ 5,020,000	\$ 5,491,500

5. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.

Response: *Attachment C.EF.5* reports the requested information, by service line. Please note that these charges/deductions reflect historic data for TrustPoint, and these charges/deductions are not expected to change as a result of this project.

6. A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.

Response: *Attachment C.EF.5* reports the requested information, by service line. Please note that these charges/deductions reflect historic data for TrustPoint, and these charges/deductions are not expected to change as a result of this project.

B. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

Response: There are no inpatient psychiatric services available in our primary service area, except what is provided at our hospital. Please note that it is impossible to obtain utilization and charge information from a general hospital that also offers inpatient psychiatric care. Therefore, *Attachment B.I.A* simply gives a breakdown of existing beds. The chart below, on the other hand, lists those facilities that offer only inpatient psychiatric care, so utilization and patient charge information is available and reported.

There will be no negative impact on existing services, as inpatient psychiatric services are non-existent except for what has already been approved for the Applicant. The closest inpatient psychiatric services to the Applicant are in Davidson, Cannon and Williamson Counties, and this project should not affect those facilities.

Psychiatric Beds Contiguous to Service Area
Average Patient Charges, Per Diem, in Nearest Dollars
Average Occupancy Rate, Rounded to Nearest Percent

<u>Year</u>	<u>Facility</u>	<u>County</u>	<u>Occ</u>	<u>Avg Gross</u>	<u>Avg Deduct</u>	<u>Avg Net</u>
2008	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	77% (not in business)	609	388	221
2009	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	68% 42%	475 1,442	293 704	182 737
2010	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	59% 69%	714 1,526	621 757	93 769
2011	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	54% 74%	686 1,524	545 761	141 763
2012	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	85% 100%	853 1,551	716 783	137 768
2013	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	85% (no report filed)	867	744	123
2014	Mid TN Mental Health Inst Rolling Hills	Davidson Williamson	86% 80%	753 1,722	663 919	90 803

7. Discuss how projected utilization rates will be sufficient to maintain cost-effectiveness.

Response: We anticipate high utilization rates will be sufficient to maintain cost-effectiveness of our hospital. It is important to keep in mind the tremendous unmet need for psychiatric care that currently exists, and will probably continue to exist following approval of this application.

The Projected Data Chart indicates a Year 1 startup loss. Year 2 projections an almost break-even year, and Year 3 projections indicate sufficient utilization rates thereafter to maintain positive cash flow following implementation of this project. It is important to remember that these projections are for the additional beds, only. If factoring in the entire facility, there will be a positive cash flow prior to Year 3.

It is important for the Applicant to operate a cost-effective facility in order to have sufficient funds to provide care for those who cannot afford needed care.

8. Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

Response: We anticipate high utilization rates will be sufficient to maintain cost-effectiveness of our hospital. It is important to keep in mind the tremendous unmet need for psychiatric care that currently exists, and will probably continue to exist following approval of this application.

The Projected Data Chart indicates a Year 1 startup loss. Year 2 projections an almost break-even year, and Year 3 projections indicate sufficient utilization rates thereafter to maintain positive cash flow following implementation of this project. It is important to remember that these projections are for the additional beds, only. If factoring in the entire facility, there will be a positive cash flow prior to Year 3.

It is important for the Applicant to operate a cost-effective facility in order to have sufficient funds to provide care for those who cannot afford needed care.

9. Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.

Response: *Attachment B.I.C* illustrates the house-wide and service line percentages of each payer source that we have served from inception through March 31, 2016. The service line percentages are not expected to change significantly as a result of the bed conversion. We expect the percentage of Medicaid and Self Pay/Unfunded admissions to increase on a house-wide basis due to the relative growth in psychiatric services resulting from the proposed bed conversion.

10. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility-10.

Response: See *Attachment C.EF.10*.

11. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:
- a. A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

Response: Trustpoint Hospital has considered two alternatives: (1) applying for Certificate of Need to increase bed capacity and service line offerings for adult and pediatric psychiatry patients through new facility construction, or (2) doing nothing and failing to meet our commitment to serve the sick and vulnerable in Rutherford and Bedford Counties and environs. The second alternative was rejected as inconsistent with the values and intent of the Hospital's leadership team and clinical staff. Moreover, no similar services exist to meet the demand for care in Rutherford and Bedford Counties.

- b. The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.

Response: Trustpoint Hospital has considered two alternatives: (1) applying for Certificate of Need to increase bed capacity and service line offerings for adult and pediatric psychiatry patients through new facility construction, or (2) doing nothing and failing to meet our commitment to serve the sick and vulnerable in Rutherford and Bedford Counties and environs. The second alternative was rejected as inconsistent with the values and intent of the Hospital's leadership team and clinical staff. Moreover, no similar services exist to meet the demand for care in Rutherford and Bedford Counties.

TrustPoint is one of the most modern hospitals in Tennessee, having opened in 2012.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.

Response: Please see *Attachment A.13*.

The Applicant has a Patient Transfer Agreement with St. Thomas Rutherford Hospital, and a Mutual Aid Memorandum of Understanding with Rolling Hills Hospital in Franklin. Both of these documents are included as *Attachment C.OD.1*.

2. Describe the positive and/or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

Response: The approval of this project will only result in positive outcomes. First, there are no other providers of inpatient psychiatric care or physical medicine rehabilitation beds in our service area, so the approval of this project will have no negative effects on the existing health care system. Second, no other providers have applied to provide such care. And, third, there will remain an unmet need for inpatient psychiatric care even with the approval of this project.

3. Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.

Response: Comparable clinical staff in the service area as published by the Tennessee Department of Labor & Workforce Development are included in *Attachment C.OD.3*.

Upon full implementation of this Certificate of Need proposal, additional clinical staff will be required to meet the anticipated demand by patients. All clinical staff will be recruited consistent with the Hospital's existing Human Resource practices, which include: advertisement in local and regional newspapers, recruitment web sites, work fairs, universities, colleges, and direct applications from prospective employees.

The proposed services will be initially staffed by existing employees. Additional employees will be hired as census demand increases. Current and proposed staffing and salary/wage data are an average of cost by category of employee. Please see *Attachment C.OD.3.1* for specific staffing charts.

4. Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.

Response: Upon full implementation of this Certificate of Need proposal, additional clinical staff will be required to meet the anticipated demand by patients. All clinical staff will be recruited consistent with the Hospital's existing Human Resource practices, which include: advertisement in local and regional newspapers, recruitment web sites, work fairs, universities, colleges, and direct applications from prospective employees.

As our facility is located only miles from the geographic center of Tennessee, our hospital is readily accessible for employees throughout Middle Tennessee. Further, many professional schools other than Belmont and MTSU are graduating nurses, social workers, etc. in the Middle Tennessee area. We have training relationships with a number of these facilities, as noted in the response to question 6 of this section of the Application.

5. **Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review *policies and programs*, record keeping, and staff education.**

Response: The Applicant is familiar with all licensing certification requirements for medical/clinical staff.

6. **Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).**

Response: TrustPoint Hospital is dedicated to delivering high quality care to patients that is safe, efficient and reliable. As an organization committed to these qualities in health care delivery, TrustPoint Hospital embraces its duty to develop and train future clinical staff to care for the sick, poor and vulnerable in our community. To accomplish this mission, TrustPoint Hospital affiliates with the following colleges, universities and programs for on-site clinical training and practicum to train aspiring health care professionals.

- Belmont University
 - Nursing
 - Occupational Therapy
 - Pharmacy
 - Physical Therapy
- Eastern Tennessee State University
 - Nursing
- Middle Tennessee State University
 - Nursing
 - Speech Therapy
- Motlow College
 - Nursing
- Tennessee State University
 - Occupational Therapy
 - Physical Therapy
- Volunteer State Community College
 - Physical Therapy

7. (a) Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.

Response: The Applicant is familiar with all licensure requirements of the regulatory agencies of the State.

(b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

Response:

Licensure: Tennessee Department of Health, Tennessee Department of Mental Health and Substance Abuse Services (residential beds)

Accreditation: Medicare, Medicaid/TennCare, JCAHO

(c) If an existing institution, please describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility.

Response: Both the current license and a copy of JCAHO certification are included as Attachment C.OD.7.c.

(d) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

Response: The Applicant was inspected by the Office of Health Licensure and Regulation for several days in January, 2016, and no deficiencies were noted. Please see *Attachment C.OD.7.d.*

8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

Response: There have been no final orders or judgments as are contemplated by this question.

9. Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project

Response: There have been no final orders or judgments as are contemplated by this question.

10. If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.

Response: The Applicant will provide all data contemplated by this question.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

Response: Please see attached tear sheet. If the requested documentation is not attached, it will be submitted once received.

DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.
2. If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph*, please state below any request for an extended schedule and document the “good cause” for such an extension.

Form HF0004
Revised 05/03/04
Previous Forms are obsolete

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision date, as published in Rule 68-11-1609(c): 09/28/2016.

Assuming the CON approval becomes the final agency action on that date; indicate the number of day **from the above agency decision date** to each phase of the completion forecast.

<u>Phase</u>	DAYS REQUIRED	Anticipated Date (MONTH/YEAR)
1. Architectural and engineering contract signed	<u>30</u>	<u>10/2016</u>
2. Construction documents approved, TDOH	<u>180</u>	<u>04/2017</u>
3. Construction contract signed	<u>30</u>	<u>05/2017</u>
4. Building permit secured	<u>30</u>	<u>06/2017</u>
5. Site preparation completed	<u>90</u>	<u>09/2017</u>
6. Building construction commenced	<u>7</u>	<u>09/2017</u>
7. Construction 40% complete	<u>146</u>	<u>02/2018</u>
8. Construction 80% complete	<u>146</u>	<u>07/2018</u>
9. Construction 100% complete (app., occupancy)	<u>73</u>	<u>09/2018</u>
10. *Issuance of license	<u>90</u>	<u>12/2018</u>
11. *Initiation of service	<u>30</u>	<u>01/2019</u>
12. Final Architectural Certification of Payment	<u>30</u>	<u>10/2018</u>
13. Final Project Report Form (HF0055)	<u>30</u>	<u>02/2019</u>

*** For projects that do NOT involve construction or renovation : Please complete items 10 and 11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSON

E. Graham Baker, Jr., being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. §68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete to the best of his knowledge.

E. Graham Baker, Jr.
SIGNATURE/TITLE

Sworn to and subscribed before me this 14TH day of June, 2016, a
(month) (year)
Williamson

Notary Public in and for the County/State of Davidson/Tennessee.



Ashley Allen
NOTARY PUBLIC

My commission expires 07/08/2019
(Month/Day) (Year)

PSYCHIATRIC INPATIENT SERVICES

A. Need

1. **The population-based estimate of the total need for psychiatric inpatient services is 30 beds per 100,000 general population (using population estimates prepared by the Department of Health and applying the data in Joint Annual Reports).**

Response: The Standard and Criteria of 30 beds per 100,000 formula was utilized.

2. **For adult programs, the age group of 18 years and older should be used in calculating the estimated total number of beds needed.**

Response: Very specific actual occupancy data, by service, from opening through March 31, 2016 is provided in attachments provided for sections B.II.B and B.II.C for the application. Some of these charts provide actual occupancy or actual admissions data, usually, by month. Other attachments provide not only historic occupancy rates, but provide projected occupancy trends. Please note that on some of these charts, the projections are statistically derived from the Applicant's actual historical data which is then utilized to create a prospective trend line. Such projections do not account for the expected immediate growth related to increased capacity to serve the adult psychiatric population.

In determining the number of beds requested in this application, the Applicant has considered: (1) its management team's experiences in developing psychiatric hospitals; (2) the time periods of increasing patient volumes in previously underserved areas; (3) the indicated need for psychiatry beds in accordance with the primary service area population and *Guidelines for Growth*; and (4) interviews with multiple individuals, including management personnel at St. Thomas Rutherford Hospital (Murfreesboro), Heritage Medical Center (Shelbyville), psychiatrists with established medical practices in Murfreesboro, several primary care physicians, and counselors at Middle Tennessee State University. Of prime importance was the trending and ramp-up progression that has occurred at TrustPoint Hospital since opening.

The Standards and Criteria of 30 beds per 100,000 formula was utilized. The age bracket in the Department's estimates for ages 15-19 was estimated at being 40% adult (ages 18 and 19, or 2 of the 5 years reported in that bracket). While this estimate is not exact, it is statistically defensible when consistently used, as it was. As a result, approximately 75% of the total population would be considered adult (18 and over), 8.1% of the total population would be considered adolescent (13 to 17), and the remaining 16.9% of the population would be considered child (under 13 years old).

The total population projection for the service area in 2020 is given on the following chart:

**Total Population Estimates: Rutherford and Bedford Counties
2020
Resultant Psychiatric Bed Need**

County	2020
Rutherford	339,557
Bedford	49,410
Total	338,967
Bed Need	102

Source: Tennessee Population Projections, 2010 – 2020, Division of Health Statistics, Tennessee Department of Health; Bed Need based on 30 beds/100,000 population.

Using the population figures in the previous chart, the formula shows that there currently exists a total need for 102 psychiatric beds by 2020. Using the statistics previously mentioned, there would be a resultant need for approximately 77 adult psychiatric beds, plus 9 adolescent psychiatric beds, plus 16 child psychiatric beds. TrustPoint currently operates 72 total psychiatric beds (44 Adult, plus 28 Geriatric).

Statistics from credible reports can be used to measure psychiatric bed need in a given service area. According to a 2010 Substance Abuse and Mental Health Services Administration report on mental health, the use of inpatient treatment for mental health conditions had averaged 0.9% of the U.S. adult population during recent years. Using that percentage and applying it to the 2020 service area adult population of 338,967, there would be 3,051 admissions made to psychiatric hospitals or psychiatric hospital units, and this amount does not include recidivism.

It is important to point out some of the statistics reflected on *Attachment B.II.B.1*. This attachment shows the Admission and Denial Statistics for Adult Psychiatry at our hospital since the first of 2014 through the 1st quarter of 2016. Specifically, note that the last quarter of 2015 plus the first quarter of 2016 shows that the number of non-admissions due to “Diverted – No Bed Available” and “Diverted – Appropriate Referred (No Appropriate Service Line)” totals 1,762 separate and individual patients who have been referred to our facility and were denied admission because we had no space for them. Based on our average length of stay, these admissions denials would have resulted in 73.4 patients (average daily census) in the last quarter of 2015, and 83.1 patients (ADC) in the first quarter of 2016. These are patients that are not receiving care who could have received care had our current expansion requests been in place.

There will be no negative impact on existing services, as inpatient psychiatric services are non-existent except for what has already been approved for the Applicant. The closest inpatient

psychiatric services to the Applicant are in Davidson, Cannon and Williamson Counties, and this project should not affect those facilities. Since there are no other hospitals in our primary service area that provide the types of care we provide, the approval of this application will have no effect on any other facilities in our primary service area.

- 3. For child inpatient under age 13, and if adolescent program the age group of 13-17 should be used.**

Response: That age group was utilized.

- 4. These estimates for total need should be adjusted by the existent staffed beds operating in the area as counted by the Department of Health in the Joint Annual Reports.**

Response: The Applicant has been approved for 59 adult psychiatric beds and 36 geriatric psychiatric beds, but operates only 44 and 28 beds, respectively. There are no other psychiatric beds located in the service area.

B. Service Area

- 1. The geographic service area should be reasonable and based on an optimal balance between population density and service proximity or the Community Service Agency.**

Response: The requested beds will be located at TrustPoint Hospital, LLC in Murfreesboro (Rutherford County), Tennessee. The main entrance to Trustpoint Hospital is on Thompson Lane, and the site is bounded by Wilkinson Pike (formerly known as Manson Pike). Thompson Lane is an area of major construction and expansion in the Murfreesboro area, and the site is across the street from the new Middle Tennessee Medical Center. The site is 2 miles from I-24, 0.8 miles from US-41, 0.4 miles from Medical Center Parkway, and is readily accessible for patients, their families and friends, and providers.

- 2. The relationship of the socio-demographics of the service area, and the projected population to receive services, should be considered. The proposal's sensitivity to and responsiveness to the special needs of the service area should be considered including accessibility to consumers, particularly women, racial and ethnic minorities, low income groups, and those needing services involuntarily.**

Response: Prior to the opening of TrustPoint Hospital, adults in the two-county service area who require psychiatric services often had difficulty accessing services. First, distances to psychiatric facilities in counties outside Bedford and Rutherford counties are often a problem since significant portions of the service area are an hour or more driving time from the existing providers located outside our service area. Secondly, many citizens in Bedford and Rutherford counties do not have the economic means or abilities to travel such distances for acute psychiatric care. Patients to be admitted involuntarily usually require public-provided transportation, and that is not practical for many patients and their families, so they often do not receive needed acute psychiatric care. TrustPoint admits individuals deemed by a court to require inpatient psychiatric care (i.e., involuntary admissions).

Since opening, TrustPoint Hospital has operated at high occupancy rates, and has increased the bed count on 3 occasions – twice by utilizing the “10 bed Rule” and one additional CON application. However, none of the beds at the Applicant are for children or adolescents. Such individuals continue to have to travel outside our service area for such services. This application, if approved, will add 14 child psychiatric beds plus 14 adolescent psychiatric beds. As there are no other beds located in our primary service area, the approval of this project should have no negative impact on existing providers.

Much of the population have special needs, and many individuals are living alone without transportation, or the ability to self-transport, to specialized services such as psychiatric services within a practical time frame.

According to the U.S. Department of Health and Human Services, all of Bedford County is a Medically Underserved Area, and one tract in Rutherford County is a Medically Underserved Area. Further, both Rutherford County and Bedford County have health professional shortage areas. The approval of this project will bring more health care resources to the service area. See *Attachment C.Need.4.B*.

TrustPoint Hospital is licensed as an acute care general hospital with three distinct service lines: adult and geriatric inpatient psychiatry, inpatient physical medicine/rehabilitation and inpatient medical psychiatry/detox. All current service lines treat adults age 18 and over. Approval of the Certificate of Need will add services for pediatric patients and expand the scope of services for adult patients with *severe* and *serious* mental illness and substance abuse disorders. All programs and services will accept and care for patients with commercial, managed care, Medicare, Tri-Care, and TennCare forms of payment. Physical medicine/rehabilitation serves patients with commercial, managed care, Medicare, and Tri-Care forms of payment. Pediatric services will accept and care for patients with commercial, managed care, Medicare, Tri-Care, and TennCare forms of payment. All service lines accept charity/unfunded patients as a function of our mission to serve the broader community in Rutherford and Bedford Counties.

Patients coming to TrustPoint Hospital represent the full cultural, social, economic, and racial cross-section of citizens in Rutherford, Bedford, and surrounding counties. The psychiatry and medical psychiatric/detox populations represent the most vulnerable patients. The United States Department of Health and Human Services (USDHHS) identifies disparity in access to care, care that is safe, efficient, and reliable and stigma associated with mental illness as primary obstacles

to improved mental health and general health outcomes nationally (USDHHS, 2014). According to USDHHS (2014), one in seventeen adults suffer a serious and debilitating mental illness that substantially compromises health, wellness, ability to engage in productive living, increased risk of morbidity and premature mortality. For Rutherford and Bedford Counties, these statistics inform that by 2019 nearly 21,000 adult residents will be suffering a serious and debilitating mental illness. As a highly vulnerable segment of our community, the ability to reach these individuals and provide access to care is essential to their well-being and the well-being of our community now and in the future. The USDHHS (2014) addresses the impact of serious mental illness on communities. Among other things, twenty-five percent of all lost time from work due to disability and premature death are directly tied to serious mental illness (USDHHS, 2014). The impact on the individual, their families, businesses and communities is staggering and resonates as a *call-to-action* to ensure high quality mental health services are available to meet the needs of this at-risk population.

According to USDHHS (2014), the most recent data for prevalence of serious mental illness among the pre-teen and teenage population (12-17 years) indicates that major depression affects 9.1% of the population and requires intensive treatment. Suicide attempts and completed suicides for this same population are a staggering 1.9 per 100 pre-teen and teenagers in the general population. Placing these numbers in perspective, the United States Census Bureau reported that 25% of the population living in Rutherford county, or approximately 74,653 pre-teen and teenagers, and 26.2% of the population living in Bedford County, or 11,838 pre-teen and teenagers, are in this high risk group for major depression and suicide (USCB, 2015). This information translates to combined pre-teen and teenage major depression for both counties of more than 7,870 pre-teens and teenagers and suicide attempts and successful suicides of more than 864 pre-teens and teenagers (USDHHS). These staggering numbers reflect the tremendous need for child and adolescent services for the residents of Rutherford and Bedford counties.

As a leader in health care delivery that considers the whole person, mind, body, and spirit, TrustPoint Hospital provides or arranges a full spectrum of inpatient and outpatient services to meet the clinical needs of its patients, their loved ones, and professional colleagues. In support of this mission, TrustPoint Hospital actively participates with and supports the local chapters of the American Heart Association, Alzheimer's Association, United Way, the Family Center and a host of other important partners that seek to strengthen the health and wellbeing of our community. Additionally, TrustPoint Hospital sponsors various support groups for patients, families, and caregivers to ensure best outcomes and sustained wellness. Located adjacent to St. Thomas Rutherford Hospital, TrustPoint Hospital and St. Thomas Rutherford Hospital have developed a very close and collaborative relationship in which we share best practices, policy development, interventions, staff training, shared medical staff, and community response and action planning in the event of a natural or other disaster. Importantly, the services provided at TrustPoint Hospital are a direct and natural complement to the important and life sustaining services provided at St. Thomas Rutherford Hospital. TrustPoint Hospital and St. Thomas Rutherford Hospital do not, *in any way*, compete for services.

Please see *Attachment C.Need.3* for a map of the service area.

C. Relationship to Existing Applicable Plans

1. The proposal's relationship to policy as formulated in state, city, county, and/or regional plans and other documents should be a significant consideration.

Response: The State of Tennessee Health Services and Development Agency philosophy states: It "strongly favors those institutions that provide services to the elderly." Over one-third of the psychiatric patients treated by the Applicant's hospital are elderly.

The elderly have the highest need for mental health services of any segment of the population. The National Institute of Health reported that depressed older adults have the highest risk of suicide (18.5 per 100,000) of any age group. As many as 40% of nursing home residents have co-morbidity and co-existing psychiatric illnesses. TrustPoint Hospital provides improved accessibility and cost effectiveness by offering a continuum of inpatient services in close proximity to the patients' homes.

As previously stated, there are no child or adolescent psychiatric beds in the service area, so the approval of this application will add needed services for the Tennessee residents we serve.

2. The proposal's relationship to underserved geographic areas and underserved population groups as identified in state, city, county and/or regional plans and other documents should be a significant consideration.

Response: TrustPoint Hospital is the only psychiatric facility located in Bedford and Rutherford Counties.

According to the U.S. Department of Health and Human Services, all of Bedford County is a Medically Underserved Area, and one tract in Rutherford County is a Medically Underserved Area. Further, both Rutherford County and Bedford County have health professional shortage areas. The approval of this project will bring more health care resources to the service area. See *Attachment C.Need.4.B.*

The Applicant will care for all persons who are in need of inpatient psychiatric care, without regard to race, gender, or the patient's ability to pay. In fact, this application targets the elderly, as about half of the beds will be for geriatric patients if this application is approved.

3. The impact of the proposal on similar services supported by state appropriations should be assessed and considered.

Response: There are no other psychiatric health care providers supported by State appropriations in the service area of Bedford and Rutherford counties.

4. The proposal's relationship to whether or not the facility takes voluntary and/or involuntary admissions, and whether the facility serves acute and/or long-term patients, should be assessed and considered.

Response: The Applicant's hospital admits all patients requiring inpatient psychiatric care, whether the admission is voluntary or involuntary. The involuntary admissions are important in the service area, given those individuals are usually more acutely ill than other patients, and they need acute psychiatric care closer to their home and attending physician(s).

Although the Applicant's psychiatry service is designed for acute psychiatric care, with average lengths of stay of 10 to 12 days for adults aged 18 through 64, and 12 to 14 days for elderly patients, the Applicant occasionally admits a patient who needs longer term care. The Applicant's hospital will stabilize those patients in the acute setting, and will work with other providers to find the most clinically appropriate long-term setting for those individuals.

5. The degree of projected financial participation in the Medicare and TennCare programs should be considered.

Response: *Attachment B.I.C* illustrates the house-wide and service line percentages of each payer source that we have served from inception through March 31, 2016. The service line percentages are not expected to change significantly as a result of the bed conversion. We expect the percentage of Medicaid and Self Pay/Unfunded admissions to increase on a house-wide basis due to the relative growth in psychiatric services resulting from the proposed bed conversion.

D. Relationship to Existing Similar Services in the Area.

1. The area's trends in occupancy and utilization of similar services should be considered.

Response: There are no similar services in the service area.

2. Accessibility to specific special need groups should be an important factor.

Response: TrustPoint is located on Thompson Lane in Murfreesboro (Rutherford County), Tennessee, and is accessible by major roads to all residents in Bedford and Rutherford counties. The site is two miles from the Medical Center Parkway exit of Interstate Highway 24, which is the major transportation artery through the service area. Middle Tennessee Medical Center, the largest general hospital in the service area, is across the street from the Applicant's new hospital. Two other general hospitals are in the service area: 1) Stonecrest Medical Center, in Smyrna, is

approximately 14 miles to the north and is adjacent to I-24, and 2) Heritage Medical Center is approximately 28 miles to the south on Highway 231, in Shelbyville.

Due to the proximity to major highways and local providers of inpatient medical care, the Applicant's hospital is accessible with reasonable travel time to all residents of the service area.

E. Feasibility

The ability of the applicant to meet Tennessee Department of Mental Health licensure requirements (related to personnel and staffing for psychiatric inpatient facilities) should be considered.

Response: The Applicant has been licensed and open since 2012, and no deficiencies have been noted by Licensure. Further the new owner of the Applicant has extensive experience in operating such facilities.



Department of State
Corporate Filings
312 Eighth Avenue North
6th Floor, William R. Snodgrass Tower
Nashville, TN 37243

ARTICLES OF ORGANIZATION (LIMITED LIABILITY COMPANY)

(For use on or after 7/1/2006)

For Office Use Only

RECEIVED
2006 OCT -5 PM 4:30
RILEY DARNELL
SECRETARY OF STATE

The Articles of Organization presented herein are adopted in accordance with the provisions of the Tennessee Revised Limited Liability Company Act.

1. The name of the Limited Liability Company is: SeniorHealth of Rutherford, LLC

(NOTE: Pursuant to the provisions of TCA §48-249-106, each limited Liability Company name must contain the words "Limited Liability Company" or the abbreviation "LLC" or "L.L.C.")

2. The name and complete address of the Limited Liability Company's initial registered agent and office located in the state of Tennessee is:

Kevin D. Lee

(Name)

49 Music Square West Suite 502, Nashville, TN 37203

(Street address)

(City)

(State/Zip Code)

Davidson

(County)

3. The Limited Liability Company will be: (NOTE: PLEASE MARK APPLICABLE BOX)

☒ Member Managed

☐ Manager Managed

☐ Director Managed

4. Number of Members at the date of filing, if more than six (6): 1

5. If the document is not to be effective upon filing by the Secretary of State, the delayed effective date and time is: (Not to exceed 90 days)

Date: _____, _____ Time: _____

6. The complete address of the Limited Liability Company's principal executive office is:

49 Music Square West Suite 502, Nashville, TN 37205 Davidson County

(Street Address)

(City)

(State/County/Zip Code)

7. Period of Duration if not perpetual: perpetual

8. Other Provisions:

9. THIS COMPANY IS A NONPROFIT LIMITED LIABILITY COMPANY (Check if applicable) ☐

10/4/2006

Signature Date

Signature

Vice President

Signer's Capacity (if other than individual capacity)

Jeffrey D. Vosel

Name (printed or typed)

State of Tennessee



Department of State
Corporate Filings
312 Eighth Avenue North
6th Floor, William R. Snodgrass Tower
Nashville, TN 37243

**CHANGE OF REGISTERED
AGENT/OFFICE
(BY A LIMITED LIABILITY COMPANY)**

RECEIVED
STATE OF TENNESSEE
2008 JAN 29 AM 12:01
RILEY DARNELL
SECRETARY OF STATE

Pursuant to the provisions of §48-208-102(a) of the Tennessee Limited Liability Company Act or §48-249-110(a) of the Tennessee Revised Limited Liability Company Act, the undersigned Limited Liability Company hereby submits this application:

1. The name of the Limited Liability Company is: SeniorHealth of Rutherford, LLC

2. The street address of its current registered office is: _____

49 Music Square West, Suite 502, Nashville, TN 37203

3. If the current registered office is to be changed, the street address of the new registered office, the zip code of such office, and the county in which the office is located is: _____

800 S. Gay Street, Suite 2021, Knoxville, TN 37929 (County of Knox)

4. The name of the current registered agent is: Kevin D. Lee

5. If the current registered agent is to be changed, the name of the new registered agent is: _____

C T Corporation System

6. After the change(s), the street addresses of the registered office and the business office of the registered agent will be identical.

1/21/08
Signature Date

Secretary
Signer's Capacity

SeniorHealth of Rutherford, LLC
Name of Limited Liability Company

Kerri Kelley Frye
Signature

Kerri Kelley Frye
Name (typed or printed)

6188.2281

6188.2315

RECEIVED
STATE OF TENNESSEE
2008 JAN 28 PM 1:12
RILEY DARNELL
SECRETARY OF STATE

\$50 per member, with a minimum fee of \$300 and a maximum fee of \$3000. There is an additional fee of \$20 if any changes are made in block #6 to the registered agent/office.

Please return completed form to:
TENNESSEE SECRETARY OF STATE
Attn: Annual Report
312 Eighth Avenue N. 6th Floor
William R. Snodgrass Tower
Nashville, TN 37243

CURRENT FISCAL YEAR CLOSING MONTH: 06

THIS REPORT IS DUE ON OR BEFORE: 10/01/08

(1) SECRETARY OF STATE CONTROL Number: 0531382

(2A.) NAME AND MAILING ADDRESS OF COMPANY

SENIORHEALTH OF RUTHERFORD, LLC

49 MUSIC SQUARE WEST
SUITE 502
NASHVILLE, TN 37203

~~~~~

(2B.) STATE OR COUNTRY OF FORMATION

(2C.) ADD OR CHANGE MAILING ADDRESS:

7113 Peach Court  
Suite 204  
Brentwood, TN 37027

(3) A. PRINCIPAL ADDRESS INCLUDING CITY, STATE; ZIP CODE:  
49 MUSIC SQUARE WEST, SUITE 502, NASHVILLE, TN 37203

**B. CHANGE OF PRINCIPAL ADDRESS:**

STREET 7113 Peach Court, Suite 204 CITY Brentwood STATE TN ZIP CODE + 4 37027

(4) This LLC is ☐ BOARD MANAGED ☐ DIRECTOR MANAGED ☐ MANAGER MANAGED ☒ MEMBER MANAGED (check one box)  
If board, director, or manager managed, provide the names and business addresses, including zip codes, of the governors, directors, or managers (or their equivalent), respectively. Attach an additional sheet if necessary.

| NAME | BUSINESS ADDRESS | CITY, STATE, ZIP CODE + 4 |
|------|------------------|---------------------------|
|      |                  |                           |
|      |                  |                           |
|      |                  |                           |
|      |                  |                           |

(5) Provide the names and business addresses, including zip codes, of the LLC managers (if governed by the LLC Act), or any officers (if governed by the Revised LLC Act), (or their equivalent), respectively. Attach an additional sheet if necessary.

| NAME                       | BUSINESS ADDRESS        | CITY, STATE, ZIP CODE + 4 |
|----------------------------|-------------------------|---------------------------|
| Senior Health Incorporated | 7113 Peach Ct. Ste. 204 | Brentwood TN 37027        |
|                            |                         |                           |
|                            |                         |                           |
|                            |                         |                           |

(6) A. NAME OF REGISTERED AGENT AS APPEARS ON SECRETARY OF STATE RECORDS:

**C.T. CORPORATION SYSTEM**

B. REGISTERED ADDRESS AS APPEARS ON SECRETARY OF STATE RECORDS:

800 S. GAY STREET, SUITE 2021, KNOXVILLE, TN 37929

C. INDICATE BELOW ANY CHANGES TO THE REGISTERED AGENT NAME AND/OR REGISTERED OFFICE.

(1.) CHANGE OF REGISTERED AGENT:

(II.) CHANGE OF REGISTERED OFFICE (Street Address):

(City)

(State) TN (Zip Code + 4)

\_\_\_\_\_(County)

(7) Number of members on the date the annual report is executed if there are more than six (6) members: \_\_\_\_\_

☐ This LLC is prohibited from engaging in business in Tennessee (check box if applicable).

(B) SIGNATURE

(9) DATE

(10) TYPE/PRINT NAME OF SIGNER

(11) TITLE OF SIGNER

\* \* THIS REPORT MUST BE DATED AND SIGNED \*



400 SS-4253 (Rev. 01-06)

**INSTRUCTIONS:** [www.state.in.us/sos/](http://www.state.in.us/sos/) or 615-741-2286

HDA 1678

6387.0744



# Tennessee Limited Liability Company Annual Report Form

AR Filing #: 02070765

File online at: <http://www.tennesseeanytime.org/sosannual/>

Status: Unsubmitted

Due on/Before: 10/01/2009

Please return completed form to:

Tennessee Secretary of State  
Attn: Annual Reports  
312 Rosa L. Parks Avenue  
6th Floor, William R. Snodgrass Tower  
Nashville, TN 37243  
Phone: (615) 741-2286

**Annual Report Filing Fee Due:**

\$300 minimum plus \$50 for each member over 6 to a maximum of \$3000

\$20 additional if changes are made in block 3 to the registered agent/office

SOS Control Number: 531382

Limited Liability Company - Domestic

Date Formed: 10/05/2006

Formation Locale: Davidson County

**(1) Name and Mailing Address:**

SENIORHEALTH OF RUTHERFORD, LLC  
5500 Maryland Way  
Suite 200  
BRENTWOOD, TN 37027-0000 USA

**(2) Principal Office Address:**

5500 Maryland Way  
Suite 200  
BRENTWOOD, TN 37027-0000 USA

**(3) Registered Agent (RA) and Registered Office (RO) Address:**

CT CORPORATION SYSTEM  
800 S GAY ST  
STE 2021  
KNOXVILLE, TN 37929 USA

(4) This LLC is (change if incorrect): ☒ Director Managed, ☐ Manager Managed, ☐ Member Managed,  
☐ Board Managed (appropriate if formed prior to 1/1/2006 only).

If board, director, or manager managed, provide the names and business addresses, including zip codes, of the governors, directors, or managers (or their equivalent), respectively.

| Name        | Business Address            | City, State, Zip    |
|-------------|-----------------------------|---------------------|
| Kevin D Lee | 5500 Maryland Way Suite 200 | Brentwood, TN 37027 |
| Kevin D Lee | 5500 Maryland Way Suite 200 | Brentwood, TN 37027 |
|             |                             |                     |
|             |                             |                     |

(5) Provide the names and business addresses, including zip codes, of the LLC managers (if governed by the LLC Act), or any officer's (if governed by the Revised LLC Act), (or their equivalent), respectively.

| Name        | Business Address            | City, State, Zip    |
|-------------|-----------------------------|---------------------|
| Kevin D Lee | 5500 Maryland Way Suite 200 | Brentwood, TN 37027 |
|             |                             |                     |
|             |                             |                     |

(6) Number of members on the date the annual report is executed if there are more than six (6) members: 1

☐ This LLC is prohibited from doing business in Tennessee (check if applicable)

(7) Signature:

(8) Date: 10/16/2009 7:47 PM

(9) Type/Print Name:

Kevin D. Lee

(10) Title:

President &amp; Director

Instructions: Legibly complete the form above. Enclose a check made payable to the Tennessee Secretary of State. Sign and date this form and return to the address provided above. Additional instructions at [http://tn.gov/sos/bus\\_srv/annual\\_reports.htm](http://tn.gov/sos/bus_srv/annual_reports.htm)



## Tennessee Limited Liability Company Annual Report Form

File online at: <http://TNBear.TN.gov/AR>

Due on/Before: 10/01/2010

Please return completed form to:

Tennessee Secretary of State  
Attn: Annual Reports  
312 Rosa L. Parks Avenue  
6th Floor, William R. Snodgrass Tower  
Nashville, TN 37243  
Phone: (615) 741-2286

**Annual Report Filing Fee Due:**

\$300 minimum plus \$50 for each member over 6 to a maximum of \$3000

\$20 additional if changes are made in block 3 to the registered agent/office

SOS Control Number: 531382

Limited Liability Company - Domestic

Date Formed: 10/05/2006

Formation Locale: Davidson County

**Name and Mailing Address:**

SENIORHEALTH OF RUTHERFORD, LLC  
5500 Maryland Way  
Suite 200  
Brentwood, TN 37027 USA

(1) Add or Change Mailing Address:

**Principal Office Address:**

5500 Maryland Way  
Suite 200  
Brentwood, TN 37027 USA

(2) Change Principal Office Address:

**Registered Agent (RA) and Registered Office (RO) Address:**

CT CORPORATION SYSTEM  
800 S GAY ST  
STE 2021  
KNOXVILLE, TN 37929 USA

(3) Change RA and/or RO Address (\$20 fee):

Note: The Registered Office address must be a physical Tennessee address (no postal box).

(4) This LLC is (change if incorrect): ☒ Director Managed, ☐ Manager Managed, ☐ Member Managed,  
☐ Board Managed (appropriate if formed prior to 1/1/2006 only).

If board, director, or manager managed, provide the names and business addresses, including zip codes, of the governors, directors, or managers (or their equivalent), respectively. Attach additional sheet if necessary.

| Name                         | Business Address             | City, State, Zip    |
|------------------------------|------------------------------|---------------------|
| Kevin D. Lee                 | 5500 Maryland Way, Suite 200 | Brentwood, TN 37027 |
| Winfield C. Dunn             | " " "                        | " "                 |
| Charles R. E. Treadway, M.D. | " " "                        | " "                 |

(5) Provide the names and business addresses, including zip codes, of the LLC managers (if governed by the LLC Act), or any officers (if governed by the Revised LLC Act), (or their equivalent), respectively. Attach additional sheet if necessary.

| Name | Business Address | City, State, Zip |
|------|------------------|------------------|
|      |                  |                  |
|      |                  |                  |
|      |                  |                  |

(6) Number of members on the date the annual report is executed if there are more than six (6) members: \_\_\_\_\_

\_\_\_\_\_ This LLC is prohibited from doing business in Tennessee (check if applicable)

(7) Signature: Kevin D. Lee

(8) Date: Nov. 5, 2010

(9) Type/Print Name: Kevin D. Lee

(10) Title: President

Instructions: Legibly complete the form above. Enclose a check made payable to the Tennessee Secretary of State. Sign and date this form and return to the address provided above. Additional instructions at [http://tn.gov/sos/bus\\_srv/annual\\_reports.htm](http://tn.gov/sos/bus_srv/annual_reports.htm)



**STATE OF TENNESSEE**  
**Tre Hargett, Secretary of State**  
Division of Business Services  
William R. Snodgrass Tower  
312 Rosa L. Parks AVE, 6th FL  
Nashville, TN 37243-1102

**CFS**  
992 DAVIDSON DRIVE  
SUITE B  
NASHVILLE, TN 37205

**Request Type: Certified Copies**  
Request #: 47727

Issuance Date: 09/21/2011  
Copies Requested: 1

**Document Receipt**

Receipt #: 543909

Filing Fee: \$20.00

Payment-Account - CFS, NASHVILLE, TN

\$20.00

I, Tre Hargett, Secretary of State of the State of Tennessee, do hereby certify that **SENIORHEALTH OF RUTHERFORD, LLC**, Control # 531382 was formed or qualified to do business in the State of Tennessee on 10/05/2006. SENIORHEALTH OF RUTHERFORD, LLC has a home jurisdiction of Davidson County and is currently in an Active status.

  
Tre Hargett  
Secretary of State

Processed By: Nichole Hambrick

The attached document(s) was/were filed in this office on the date(s) indicated below:

| <u>Reference #</u> | <u>Date Filed</u> | <u>Filing Description</u>           |
|--------------------|-------------------|-------------------------------------|
| 5869-2523          | 10/05/2006        | Initial Filing                      |
| 6188-2315          | 01/28/2008        | Registered Agent Change (by Entity) |
| 6387-0744          | 10/07/2008        | 2008 Annual Report (Due 10/01/2008) |
| 6612-3059          | 10/20/2009        | 2009 Annual Report (Due 10/01/2009) |
| 6793-0739          | 11/16/2010        | 2010 Annual Report (Due 10/01/2010) |



**STATE OF TENNESSEE**  
**Tre Hargett, Secretary of State**  
**Division of Business Services**  
William R. Snodgrass Tower  
312 Rosa L. Parks AVE, 6th FL  
Nashville, TN 37243-1102

TrustPoint Hospital LLC  
1009 N THOMPSON LN  
MURFREESBORO, TN 37129-4351

January 31, 2013

**Filing Acknowledgment**

Please review the filing information below and notify our office immediately of any discrepancies.

**Control # : 531382**      Status: Active  
Filing Type: Limited Liability Company - Domestic

**Document Receipt**

Receipt # : 895385      Filing Fee: \$20.00  
Payment-Check/MO - POLARIS HOSPITAL COMPANY LLC, BRENTWOOD, TN      \$20.00

Amendment Type: Articles of Amendment      Image # : 7139-1910  
Filed Date: 01/31/2013 9:21 AM

This will acknowledge the filing of the attached articles of amendment with an effective date as indicated above. When corresponding with this office or submitting documents for filing, please refer to the control number given above.

You must also file this document in the office of the Register of Deeds in the county where the entity has its principal office if such principal office is in Tennessee.

  
Tre Hargett  
Secretary of State

Processed By: Carol Dickerson

| Field Name            | Changed From                    | Changed To              |
|-----------------------|---------------------------------|-------------------------|
| Filing Name           | SENIORHEALTH OF RUTHERFORD, LLC | TrustPoint Hospital LLC |
| Principal Address 1   | 10 CADILLAC DR                  | 1009 N THOMPSON LN      |
| Principal Address 2   | STE 470                         | No value                |
| Principal City        | BRENTWOOD                       | MURFREESBORO            |
| Principal Postal Code | 37027-1045                      | 37129-4351              |
| Principal County      | WILLIAMSON COUNTY               | RUTHERFORD COUNTY       |
| Mail Address 1        | 10 CADILLAC DR                  | 1009 N THOMPSON LN      |
| Mail Address 2        | STE 470                         | No value                |
| Mail City             | BRENTWOOD                       | MURFREESBORO            |
| Mail Postal Code      | 37027-1045                      | 37129-4351              |

**LEASE**

**between**

**NHI-REIT OF TENNESSEE, LLC,  
a Tennessee limited liability company**

**“Landlord”**

**and**

**SENIORHEALTH OF RUTHERFORD, LLC,  
a Tennessee limited liability company**

**“Tenant”**



**LEASE**

**between**

**NHI-REIT OF TENNESSEE, LLC,  
a Tennessee limited liability company**

**“Landlord”**

**and**

**SENIORHEALTH OF RUTHERFORD, LLC,  
a Tennessee limited liability company**

**“Tenant”**

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## LEASE

THIS LEASE (herein the "Lease") is executed this 30th day of September, 2011, by and between SeniorHealth of Rutherford, LLC, a Tennessee limited liability company, having its principal office at 5500 Maryland Way, Suite 200, Brentwood, TN 37027, as Tenant (the "Tenant"), and NHI-REIT of Tennessee, LLC a Tennessee limited liability company, having its principal office at 222 Robert Rose Drive, Murfreesboro, Tennessee 37129, as Landlord (the "Landlord").

## RECITALS

WHEREAS, Landlord owns certain real property located in Murfreesboro, Rutherford County, Tennessee, as more particularly described on Schedule 1 attached hereto (the "Land"); and

WHEREAS, Landlord desires to lease the hereinafter described Leased Property to Tenant, and Tenant desires to lease the same from Landlord, upon the terms, covenants and conditions hereinafter set forth; and

WHEREAS, Landlord has agreed to provide construction funds and Tenant has agreed to construct, furnish, and equip certain improvements on the Land so as to qualify the improvements for licensure by the Tennessee Department of Health ("TDH") as a sixty (60)-bed general hospital (the "Facility").

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, the parties to this Lease hereby covenant and agree as follows:

## ARTICLE 1. DEFINITIONS

For all purposes of this Lease, unless otherwise expressly provided in this Lease or unless the context in which such term is used indicates a contrary intent, (a) the terms defined in this Article 1 shall have the meanings ascribed to them in this Article 1, and the terms defined elsewhere in this Lease shall have the meanings ascribed to them herein, (b) all accounting terms not otherwise defined in this Article 1 shall have the meanings ascribed to them in accordance with generally accepted accounting principles at the time applicable to the accrual method of accounting, applied on a consistent basis, (c) all references in this Lease to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this Lease, (d) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Lease as a whole and not to any particular Article, Section or other subdivision, and (e) words used in the singular also include the plural, and vice versa, as the context may require:

"Additional Charges" shall have the meaning ascribed to such term in Section 5.2.

"Affiliate" shall mean (a) with respect to Tenant, any individual, corporation, business trust, association, company, partnership, joint venture, or other entity which, directly or indirectly, controls, or is controlled by, or is under common control with, Tenant, and (b) with respect to Landlord, any corporation, business trust, association, company, partnership, joint venture, or other entity which, directly or indirectly, controls, or is controlled by, or is under common control with, Landlord. As used in this definition, "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any entity, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such entity, through the ownership of voting securities, partnership interests or other equity interests, or through any other means, including the right to act as managing member.

"Architect" means Davis Stokes Collaborative.

"Assignment of Contracts and Leases" means for the Property the Assignment and Assumption of Contracts and Leases in the form of Exhibit A attached hereto and incorporated herein by this reference pursuant to which Tenant shall assign all of its right, title and interest in the Contracts and Leases (including real property leases and personal property leases) to Landlord (or to Landlord's successor in title to the Property) effective upon the termination of this Lease to the extent the same are assignable in this manner.

"Authority" shall mean the United States of America, the State, the county, the city or any other political subdivision in which any portion of the Property is located, and any other political subdivision, agency, instrumentality, department, commission, board, court, authority, official, officer, accreditation authority or any other Person, domestic or foreign, exercising jurisdiction or control over Landlord, Tenant, and/or any portion of the Property.

"Award" means all compensation, sums and any other value awarded, paid or received on a total or partial condemnation of any portion of the Property and shall specifically exclude any separate award made to Tenant as allowed in Article 17 below.

"Base Rent" shall mean the monthly installments of Base Rent payable under this Lease in the amounts set forth in Article 5, as increased as provided herein.

"Bill of Sale" means the instrument in the form of Exhibit B attached hereto and incorporated herein by this reference, pursuant to which Tenant will convey to Landlord (or to Landlord's successor in title to the Property), effective upon the termination of this Lease, all of the property described in Article 31 that is to be transferred to Landlord to the extent that same are transferable in this manner.

"Business" shall mean any business, whether healthcare related or not, which is conducted by Tenant or an Affiliate on the Property.

"Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which federally chartered banks located in the State of Tennessee, are authorized, or obligated, by law or executive order, to close.

"Cap Ex Account" shall have the meaning ascribed to such term in Section 8.2.



"Capital Additions" shall mean (a) a material expansion of the Property, (b) the material renovation of any portion of the Property, or (c) the construction of an addition to or new wing on, or conversion of, the Property, in each case, in order to (i) increase the unit, bed or service capacity, or (ii) improve, add or change any material services, both medical and non-medical, so as to include services not previously offered at that Property or expand existing services, or (iii) subject to the provisions of Section 9.3, change the purpose for which the Property is utilized.

"Capital Expenditures" shall have the meaning ascribed to such term in Section 8.1.

"Capital Improvement Reserve Agreement" shall mean the agreement between Landlord and Tenant as to the Property in the form attached as Exhibit C under which Tenant shall from time to time deposit applicable funds for future use to pay for Capital Additions.

"Cash Equivalents" means certificates of deposit, money market funds, and United States Treasury bills.

"Citation" means any operational or physical plant deficiency set forth in writing with respect to the Facility by any governmental body or agency, or Medicaid or Medicare intermediary, having regulatory oversight over the Facility, with respect to which the scope and severity of the penalty for such deficiency, if not cured, is one or more of the following: Loss of licensure or certificate of need, decertification of beds or of the Facility from participation in the Medicare and/or Medicaid programs, appointments of a temporary manager or denial of payment for new admissions.

"Commencement Date" shall mean the date of this Lease.

"Completion" means that (i) such portion of the Improvements are completed in substantial accordance with the Contract Documents (notwithstanding Punch List items which remain to be performed), as approved by Landlord, as amended by all change orders as set forth in the Development Agreement, and in accord with the Certificate of Need paid for in full, free of all mechanics', laborers', materialmens' and other similar lien claims, and completion has been certified by the Architect and approved by the Landlord's Consultant and such completion complies with all applicable requirements of the CON; (ii) a certificate of substantial completion for such Improvements has been signed by Tenant and the Architect and delivered to Landlord; (iii) Landlord has received acceptable evidence that all Governmental Requirements and all private restrictions and covenants relating to such Improvements have been complied with or satisfied and that one or more certificates of occupancy, as applicable, for such Improvements have been issued by all appropriate governmental authorities without material conditions; and (iv) the license from TDH to operate the Facility has been issued.

"Completion Date" means the date that Completion occurs.

"CON" means that certain certificate of need issued March 28, 2007 (CN0610-089A) by the Tennessee Health Services and Development Agency in the name of SeniorHealth of Rutherford, LLC.

"Condemnation" means (a) the exercise of any governmental power, whether by legal proceedings or otherwise, by a Condemnor, the purpose and intent of which is to effect a Taking,

or (b) a voluntary sale or transfer by Landlord with Tenant's consent (only required if no Event of Default has occurred and is continuing) to any Condemnor, either under threat of condemnation or while legal proceedings for condemnation are pending.

"Condemnor" means any public or quasi-public authority, or private corporation or individual, having the power of condemnation.

"Construction Funds" shall have the meaning ascribed to such term in the Development Agreement.

"Contract Documents" shall have the meaning ascribed to such term in that certain Standard Form of Agreement Between Owner and Contractor dated September 30, 2011 between Tenant and General Contractor.

"Contracts" means collectively those agreements (other than the Operating Leases and Healthcare Permits) under which Tenant conducts the business of the Property.

"Control" means the power to direct or cause the direction of the management and policies of a Person, through the ownership of voting securities, ownership interests or other equity interests.

"Current Ratio" means the ratio of Tenant's current assets, excluding intercompany and related party receivables, to Tenant's current liabilities, excluding intercompany and related party liabilities and income taxes, determined in accordance with generally accepted accounting principles consistently applied.

"Date of Taking" means the first date the Condemnor has the right to immediate possession of the property being condemned.

"Default" means any of the events detailed in Article XVIII for which any notice or cure period, to the extent applicable, has not run.

"Development Agreement" means that certain agreement of even date herewith between Landlord and Tenant and attached hereto as Exhibit D.

"Development Budget" means the detailed budget for the cost of the construction and development of the Improvements as agreed upon by Landlord and Tenant and containing such budget information as Landlord and Tenant may request and approve [attached hereto as Exhibit E].

"Development Costs" means all costs and expenses of construction and development of the Improvements, in accordance with the Contract Documents up to the total amount set forth in the Development Budget. Without limiting the foregoing, it is intended that Development Costs include all amounts funded, advanced or accrued by Tenant hereunder in the development of the Leased Property in accordance with the Development Budgets and the Contract Documents, including without limitation, (\$1,262,051.87) of advances made by the Tenant prior to the

Commencement Date as detailed on Schedule 2, up to but not to exceed without the approval of both Landlord and Tenant, the total amount set forth in the Development Budget.

"Draw Request" shall mean a request for Construction Funds in the form show on Exhibit F hereto.

"Encumbrance" shall have the meaning ascribed to such term in Article 24.

"Event of Default" shall have the meaning ascribed to such term in Section 18.1 and elsewhere throughout this Lease.

"Facility" means the sixty (60)-bed (and any additional beds allowed pursuant to Section 8.4) general hospital operated on the Property.

"Facility FF&E" means the equipment, machinery, furnishings, furniture, appliances and other items of personal property necessary, appropriate or required for the operation and occupancy of the Facility as a general hospital providing medical detoxification, psychiatric-adult and geriatric, and medical rehabilitation services identified in the Contract Documents, with vendors and items to be selected by Tenant, and to be initially installed in the Facility by Tenant in substantial accordance with the Contract Documents.

"Fair Market Value" shall be determined in accordance with the procedures described in Article 31.

"Fiscal Year" shall mean Tenant's Fiscal Year, which now ends December 31 in each calendar year, with the new Fiscal Year beginning on the following January 1. If Tenant changes its Fiscal Year at any time during the Term, Tenant shall promptly give Landlord Notice specifying such change. If any such change is made, all reporting and accounting procedures set forth in this Lease shall continue to be made in accordance with generally accepted accounting principles, consistently applied. Any appropriate adjustments to such procedures as a result of such change shall be made upon the reasonable mutual consent of Landlord and Tenant. No such change or adjustment shall alter the Term, and Tenant shall bear any accounting costs reasonably incurred by Landlord as a result of any such change or adjustment.

"Fixed Charge Coverage Ratio" means the ratio of Net Operating Income of the Facility to aggregate Base Rent for the period then ending, any lease payments or payments of interest or principal for Facility FF&E, interest payments on any line of credit of Tenant, and payments of interest or principal on secured debt of Tenant. Provided however, in calculating Net Operating Income for this ratio, interest expense shall be excluded from Operating Expenses.

"General Contractor" means Batten & Shaw, Inc.

"Governmental Authority" means the United States, the state, county, city and political subdivisions in which the Land is located or which exercise jurisdiction over the Land or the construction or operation of the Improvements thereon, and any court administrator, agency, department, commission, board, bureau or instrumentality of any of them which exercises jurisdiction over the Land or the construction or operation of the Improvements thereon, specifically including, without limitation, TDH.

“Governmental Requirement” means any law, ordinance, order, rule, regulation, decree or similar edict of a Governmental Authority, including environmental, occupational, health, safety, zoning and other land use ordinances and regulations.

“Guarantors” shall mean Dr. Richard N. Schott, Kevin D. Lee, Dr. Charles R. F. Treadway, Polaris Hospital Company, LLC, FēnX Healthcare, Inc. and Polaris Hospital Management, Inc.

“Hazardous Substances” shall mean any hazardous or toxic substances, materials or wastes listed in the United States Department of Transportation Table (49 CFR 172.101) or by the Environmental Protection Agency as hazardous substances (40 CFR Part 302) and amendments thereto, or such substances, materials and wastes which are or become regulated under any applicable local, state or federal law, including any materials, wastes or substances which are (a) hydrocarbons, petroleum and petroleum products, (b) asbestos, (c) polychlorinated biphenyls, (d) formaldehyde, (e) radioactive substances, (f) flammables and explosives, (g) described as a “hazardous substance” pursuant to Section 311 of the Clean Water Act, 33 U.S.C. Section 1251 et seq., 33 U.S.C. Section 1321 or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. Section 1317), (h) defined as a “hazardous waste” pursuant to Section 1004 of the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et sea. (42 U.S.C. Section 6903), or (i) defined as a “hazardous substance” pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et sea. (42 U.S.C. Section 9601), as the same may be amended from time to time or toxic mold, fungi, bacteria or other microorganism or any related etiologic agents or materials (living or nonliving).

“Healthcare Laws” means all applicable Laws relating to the operation of medical facilities (such as, but not limited to, hospitals, critical care facilities, patient healthcare, patient healthcare information, patient abuse, the quality and adequacy of medical care, rate setting, equipment, personnel, operating policies, fee splitting, including, without limitation, (a) all federal and state fraud and abuse laws, including, without limitation, the federal Anti-Kickback Statute (42 U.S.C. §1320a-7b(6)), the Stark Law (42 U.S.C. §1395nn), the civil False Claims Act (31 U.S.C. §3729 et seq.), the Patient Protection and Affordable Care Act (P.L. 111-1468), the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152), the Emergency Medical Treatment and Active Labor Act (42 U.S.C. §1395 dd), (b) HIPAA; (c) TRICARE, (d) Medicare; (e) Medicaid; (f) quality, safety and accreditation standards and requirements of all applicable state laws or regulatory bodies; (g) all laws, policies, procedures, requirements and regulations pursuant to which Healthcare Permits are issued; and (h) any and all other applicable health care laws, regulations, manual provisions, policies and administrative guidance, each of (a) through (h) as may be amended from time to time.

“Healthcare Permit” means a License (a) issued or required under Healthcare Laws to operate a general hospital providing medical detoxification, psychiatric – adult and geriatric, and medical rehabilitation services or necessary in the distribution or delivery of goods or services under Healthcare Laws applicable to the business of Tenant, (b) issued by any Person from which Tenant has, as of the Closing Date, received an accreditation (including, without limitation, JCAHO), and/or (c) issued or required under Healthcare Laws applicable to the ownership, leasing and/or operation of the Facility.

"Impositions" shall mean, as to the Property, all taxes (including, without limitation, (a) all real property taxes imposed upon the Property, (b) all other real property taxes and personal property taxes imposed upon the Property, and (c) all ad valorem, sales, use, single business, gross receipts, transaction privilege, rent or similar taxes applicable to or imposed upon Tenant, Tenant's property or its business (including, but not limited to, payroll taxes) conducted upon any portion of the Property or from within the Property), assessments (including, without limitation, all supplemental real property tax assessments or assessments for public improvements or benefit, whether or not commenced or completed prior to the date hereof and whether or not to be completed within the Term), water, sewer or other rents and charges, excises, tax levies, fees (including, without limitation, license, permit, franchise, inspection, authorization and similar fees and any and all connection charges, guaranteed revenues, contributions-in-aid of construction or other charges under any developer agreement existing on the date hereof or other like agreement of record) and all other governmental charges, in each case whether general or special, ordinary or extraordinary, foreseen or unforeseen, of every character or nature whatsoever imposed with respect to or connected with the Property or the business thereon or therein by Tenant (including all interest and penalties thereon due to any failure or delay in payment thereof) which at any time prior to, during or with respect to the Term hereof may be assessed or imposed on or with respect to, or may be a lien upon (i) Landlord's interest in the Property, (ii) the Property or any part thereof or any rent therefrom or any estate, right, title or interest therein or (iii) any occupancy, operation, use or possession of, or sales from, or activity conducted on or in connection with the Property or the leasing or use of the Property or any part thereof by Tenant. For the purposes of this definition, the term "real property tax" shall mean for the Property all taxes which are imposed, levied or assessed upon or with respect to the Property, or any portion thereof (including increases in real property taxes which are caused by reason of any new construction in or to the Property). Notwithstanding the foregoing, Impositions shall not include (1) any tax based on income (whether denominated as a franchise, capital stock or other tax) imposed upon Landlord or any other person, (2) any transfer or revenue tax imposed upon Landlord or any other person (including any tax imposed as a result of a transfer, either partial or total, of Landlord's interest in the Property or which are added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer or which are imposed by reason of this transaction, any modifications hereto, or any transfers hereof), (3) any tax imposed with respect to the sale, exchange, mortgage or other disposition by Landlord of any property (including the Property) or the proceeds thereof, or (4) any franchise tax, license tax or other like tax or fee imposed on Landlord as an entity.

"Improvements" means the Facility and other improvements to be constructed in substantial accordance with the Contract Documents, including any and all site preparation, landscaping and drainage work necessary to construct and operate the Facility as a sixty (60)-bed general hospital providing medical detoxification, psychiatric-adult and geriatric, and medical rehabilitation services.

"Initial Term" shall mean the period commencing on the Commencement Date and, unless terminated earlier or extended in accordance with the provisions of this Lease, expiring on the last day of the calendar month in which the fifteenth (15th) anniversary of the Rent Commencement Date occurs.

"Insurance Requirements" shall mean all terms and conditions of any insurance policy required by this Lease and all requirements of the issuer of any such insurance policy.

"Inventory" means the operating supply of consumable supplies, including food, drugs, medicines, materials and other supplies used in connection with the operation of the Property.

"JCAHO" means the Joint Commission on Accreditation of Healthcare Organizations.

"Land" means that certain tract of land consisting of 6.09 acres in Murfreesboro, Rutherford County, Tennessee as more particularly shown on Schedule 1 attached hereto.

"Landlord's Consultant" shall mean Walker & Associates, Inc.

"Lease" shall mean this document, as the same may be amended from time to time in accordance herewith.

"Lease Coverage Ratio" means the ratio of the Net Operating Income of the Facility to the aggregate Base Rent for the period then ending.

"Lease Guaranties" shall have the meaning ascribed to such term in Section 12.5.

"Lease Term" or "Term" shall mean the Initial Term and, if applicable, the Renewal Terms.

"Lease Year" shall mean the period starting on the Rent Commencement Date (or if the Rent Commencement Date is not on the first day of the month then on the first day of the first full month following the Rent Commencement Date) through each twelve (12) consecutive month period throughout the Term.

"Legal Requirements" shall mean all federal, state, county, municipal and other governmental statutes, laws, rules, orders, regulations, ordinances, judgments, common law, decrees and injunctions affecting the Property or the maintenance, construction, use, alteration, occupancy or operation thereof (including but not limited to the Permitted Use), whether now or hereafter enacted and in force (including any of the foregoing which may require repairs, modifications or alterations in or to the Property and further including all federal and state statutes relating to hospitals including but not limited to Healthcare Laws), all Licenses, land use entitlements, zoning and regulations relating thereto, and all covenants, conditions, agreements, restrictions, obligations and encumbrances contained in any instruments, either of record or known to Tenant.

"Licenses" shall mean all Healthcare Permits, and all other permits (including building permits), licenses, franchises, certificates (including certificates of occupancy), certificates of need, provider agreements with governmental entities necessary to participate in governmental programs (including, but not limited to, Medicare, Medicaid or Tricare), or other governmental approvals and similar authorizations and entitlements applicable to the Property or otherwise required under any and all Legal Requirements to perform any and all of Tenant's obligations under this Lease, and to operate the Property for the Permitted Use(s).

"Liquidity" means the sum of cash and Cash Equivalents.

"Manager" means Polaris Hospital Management, Inc.

"Management Agreement" means the Management Agreement between Tenant and Manager dated September 29, 2011 attached hereto as Exhibit G.

"Materially Adverse Effect" means any occurrence of whatsoever nature (including, without limitation, any adverse determination in any litigation, arbitration or governmental investigation or proceeding) which would have a material adverse effect on the then present or prospective financial condition or operations of Tenant or any Guarantor, the value of the Improvements or any other material collateral securing the Lease, or substantially impair the ability of Tenant or any Guarantor to perform its obligations as and when required under the Lease or Guaranty, respectively.

"Net Operating Income" means for the applicable measuring period, the net revenue of Tenant from the operation of the Facility less: Operating Expenses for the Facility (excluding management fees, and Tenant base rent liability to Landlord under the Lease Agreement); an assumed annual two and one-half percent (2.5%) management fee; and beginning with the fourth anniversary of the Rent Commencement Date, assumed annual capital expenditures in the amount of One Thousand Dollars (\$1,000) per licensed bed.

"Net Worth" means total assets minus total liabilities in accordance with generally accepted accounting principles.

"NHI" means National Health Investors, Inc., a Maryland corporation.

"Notice" shall mean any notice required under this Lease, all of which shall be given pursuant to Section 32.8.

"Officer's Certificate" shall mean a certificate of Tenant or Landlord, as applicable, signed by the chief executive officer, chief financial officer, chief accounting officer or other duly authorized officer of Tenant or Landlord, as applicable.

"Operating Expenses" shall mean the total consolidated costs and expenses incurred by Tenant in the ownership, operation, maintenance, repair and management of the Property, including property taxes, insurance expense, and interest expenses to third parties, but excluding depreciation and amortization expense.

"Operating Leases" means collectively those leases of any personal property used by Tenant in connection with the operation of the Property.

"Outside Date" shall mean December 31, 2012.

"Overdue Rate" means on any date, a rate of interest equal to twelve percent (12%) per annum.

"Permitted Encumbrances" shall mean the matters set forth in Schedule 3, attached hereto and incorporated herein by this reference.

"Permitted Use" shall mean the use and operation of the Property and all parts thereof as a sixty (60)-bed (and any additional beds permitted pursuant to Section 8.4) general hospital providing medical detoxification (9 beds), psychiatric – adult and geriatric (24 beds), and medical rehabilitation services (27 beds) as licensed by the TDH, and, in connection therewith, the provision of banking and other support service uses, food services, and other ancillary services, all in full compliance with all applicable Legal Requirements.

"Person" shall mean any person, firm, limited liability company, corporation, partnership, trust or other entity.

"Property" shall mean the Land as described on Schedule 1 attached hereto, and the building and the fixtures of the Landlord, and any furniture and equipment financed by Landlord located thereon.

"Punch List Items" means minor details of construction, mechanical adjustments or decorations which remain to be completed following the Completion Date that do not (i) prevent the issuance of a certificate of use and occupancy (or the local equivalent thereof) for the Improvements and/or (ii) materially interfere with the use of the Improvements for the Permitted Use.

"Quarterly Compliance Certificate" shall have the meaning ascribed to such term in Section 23.4.

"Records" means files and records, including, but not limited to, correspondence with patients, tenants, or suppliers, books of account, employment records, patient files, records pertaining to supplies, advertising records, files, the paperless record system and all items recorded therein, and literature and other written materials of Tenant relating to the Property.

"Renewal Term" shall have the meaning ascribed to such term in Section 3.2.

"Rent" shall mean the Base Rent and Additional Charges.

"Rent Commencement Date" shall have the meaning ascribed to it in Section 3.1.

"State" shall mean the state in which the Property is located.

"Sworn Construction Cost Statement" means an itemized, certified statement of actual and estimated costs of the construction of the Improvements, in the form of Exhibit H attached hereto signed and sworn to by Tenant and Architect.

"Taking" shall mean a taking or voluntary conveyance during the Term hereof of all or any part of the Property, or any interest therein, right with respect thereto or use thereof, as a result of, incidental to, or in settlement of any Condemnation or other eminent domain proceedings affecting the Property, regardless of whether such proceedings shall have actually been commenced.



"Targeted Expenditure Amount" shall have the meaning ascribed to such term in Section 8.1.

"Term"; "Term of this Lease"; "Lease Term"; "Term hereof" shall each mean as and when used in this Lease and include the Initial Term of this Lease as defined in Article 3 hereof, and, to the extent this Lease is extended and renewed as provided herein, the Renewal Term of this Lease as defined in Article 3 hereof.

"TDH" means the Tennessee Department of Health.

"Third Party Occupant" means any tenant, sublessee, licensee, concessionaire or other occupant of the Property.

"Third Party Payor" means Medicare, Medicaid, TRICARE, and other state or federal health care program, Blue Cross and/or Blue Shield, private insurers, managed care plans and any other Person or entity which presently or in the future maintains Third Party Payor Programs.

"Unavoidable Delays" shall mean delays due to strikes, lockouts, inability to procure materials, power failures, acts of God, governmental restrictions, enemy action, civil commotion, unavoidable casualty and other causes beyond the control of the party responsible for performing an obligation hereunder, provided that lack of funds shall not be deemed a cause beyond the control of either party hereto.

## **ARTICLE 2. LEASE OF PROPERTY.**

2.1 Letting. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, subject to the terms, covenants, conditions and provisions hereinafter set forth, all of Landlord's right, title and interest in and to the Property.

2.2 Warranty by Landlord. Landlord warrants that except for the Permitted Encumbrances, the Property is free and unencumbered by any mortgage, deed of trust, security interest, pledge, lien or encumbrance arising by, through or under Landlord, which mortgage, deed of trust, security interest, pledge, lien or encumbrance would have priority over the leasehold estate granted to Tenant by this Lease. Tenant accepts the leasehold estate granted by this Lease. Landlord retains the rights to place Encumbrances (as hereinafter defined) on the Property as provided in Article 24 hereof.

2.3 As Is/Where Is. Tenant is familiar with each and every aspect of the Property, including the condition of the Land and all Improvements thereon, and hereby accepts same on an AS IS/WHERE IS BASIS WITH ALL FAULTS and without reliance upon any representations or warranties of Landlord of any kind or nature whatsoever except as set out in Section 2.2 above or in any other provisions of this Lease, whether express or implied, and subject to all matters of every kind and description including, without limitation, (a) the existing state of title as of the date hereof, including all covenants, conditions, restrictions, ground leases, easements, Legal Requirements, mortgages, fixture filings, security agreements, financing statements and other financing instruments, including matters known to Tenant, all matters of record, and (b) matters which would be disclosed by an inspection of the Property or by an

accurate survey of each parcel of the Land and (c) all other matters which should reasonably have been known to Tenant (but excluding any matters created or caused by any acts or omissions of Landlord). Except for matters arising by, through or under Landlord (or any acts or omissions of Landlord), Tenant waives any and all claims, demands and cause or causes of action heretofore or hereafter arising against Landlord with respect to the condition of the Property or the ability of Tenant to conduct any business from the Property.

WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, LANDLORD MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO THE PROPERTY OR ANY PART THEREOF, EITHER AS TO ITS DESIGN, CONDITION, HABITABILITY, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR USE OR PURPOSE (INCLUDING, WITHOUT LIMITATION, THE PERMITTED USES) OR AS TO THE QUALITY THEREOF OR THE PRESENCE OR ABSENCE OF DEFECTS IN THE MATERIAL OR WORKMANSHIP THEREIN, LATENT OR PATENT. TENANT ACKNOWLEDGES AND AGREES THAT, AS OF THE COMMENCEMENT DATE FOR THE PROPERTY, THE PROPERTY SHALL BE CONCLUSIVELY DEEMED TO HAVE BEEN INSPECTED BY TENANT AND SHALL BE CONCLUSIVELY DEEMED TO BE SATISFACTORY TO IT IN ALL RESPECTS.

2.4 Fees. At closing, Tenant shall pay Landlord a fee of Two Hundred Fifteen Thousand Dollars (\$215,000) as consideration for Landlord entering into this transaction, which at Tenant's request shall be initially advanced by Landlord as a portion of the Construction Funds.

### ARTICLE 3. TERM OF LEASE

3.1 Term; Commencement Date. The Initial Term shall commence on the Commencement Date and the payment of the Rent due hereunder shall commence on the Rent Commencement Date (as herein defined) and shall remain in effect for a period of Fifteen (15) years from the Rent Commencement Date, unless terminated sooner pursuant to the provisions of this Lease. The term "Rent Commencement Date" shall mean the first day of the month following the date on which the last of the following conditions occurs or is satisfied (a) the construction of the Facility has been completed as evidenced by a Certificate of Substantial Completion by the Architect and the Facility FF&E for the Facility has been installed, (b) all means of access, ingress and egress to and from the Facility has been substantially completed, are in good working order and are available for use by Tenant, (c) a final and permanent certificate of occupancy for the Facility permitting the legal use and occupancy of the Leased Property a sixty (60)-bed general hospital providing medical detoxification (9 beds), psychiatric – adult and geriatric (24 beds) has been obtained from the applicable local governmental authority having jurisdiction; and (d) all physical plant inspections and regulatory approvals of the Facility from the applicable governmental authorities necessary for the Facility to be licensed by TDH as a sixty (60)-bed general hospital providing medical detoxification (9 beds), psychiatric – adult and geriatric (24 beds), and medical rehabilitation services (27 beds) have been obtained. In all events, the Rent Commencement Date shall be no later than the Outside Date. The parties agree that an addendum to this Lease, in the form attached as Exhibit I, shall be executed evidencing the Rent Commencement Date and the amount of Landlord's investment once the same has been established as provided in Section 5.1.

3.2 Renewal. Provided that no Event of Default hereunder has occurred and is continuing at the time of the exercise by Tenant of its option to extend, Tenant shall have the option and right to renew and extend the Term of this Lease for Five (5) additional periods of Ten (10) years each (each such Ten (10) year renewal period is referred to herein as a "Renewal Term"). Tenant shall exercise this option and right to renew and extend the Term of this Lease by giving Landlord written notice of its intent and election to do so not less than twelve (12) months prior to the expiration of the Initial Term or any applicable prior Renewal Term. Tenant's leasing of the Property during each such Renewal Term shall be upon and subject to the same terms, covenants and conditions set forth in this Lease. This Lease will be deemed extended for each Renewal Term upon Tenant giving the foregoing notice on a timely basis without the necessity of the execution by the parties of any confirmatory instrument.

#### ARTICLE 4. CONSTRUCTION

The construction of the Facility shall be governed by the Development Agreement attached hereto as Exhibit D and made a part hereof. To the extent that during the construction process there is any conflict between the terms of this Lease and the Development Agreement, the terms of the Development Agreement shall control.

#### ARTICLE 5. RENT

During the Term, Tenant shall pay the Rent, including the Base Rent and all Additional Charges due hereunder, together with any applicable State sales tax thereon, to NHI on behalf of Landlord, in lawful money of the United States of America, in immediately available funds, without right of offset other than as expressly provided herein, by wire transfer in accordance with the following instructions:

Pinnacle National Bank  
Nashville, Tennessee  
ABA #064008637  
to credit National Health Investors, Inc.  
Account #5003254

or to such other account, address, place, or person or entity, or by such other method of payment, as Landlord may designate from time to time in a Notice. The Base Rent and Additional Charges shall be paid in accordance with this Article 5.

5.1 Base Rent. Base Rent shall be paid in twelve equal monthly installments beginning on the Rent Commencement Date and on the first (1st) day of each succeeding month thereafter. The initial annual base rent shall be determined by taking ten percent (10%) of the amount of the "Landlord's Invested Amount in the Property." For purposes of determining "Landlord's Invested Amount in the Property," Landlord shall produce to Tenant a certificate verified by Landlord, that itemizes Landlord's investment, including (a) the purchase price of the Property and the amount of Construction Funds disbursed or otherwise invested by Landlord, (b) adding interest from the dates of disbursements, calculated at the rate of ten percent (10%) per annum; but less (c) Tenant's due diligence fee and/or Landlord's fee, if not disbursed from Construction Funds. Landlord's proposed Invested Amount shall be provided to Tenant in a certificate

together with Landlord's calculations and accounting detail, and said amount shall be deemed to be correct unless Landlord, within ten (10) days of providing such notice to Tenant, receives a written notice from Tenant disputing such amount and providing the basis for such disagreement. Landlord and Tenant shall in good faith cooperate to resolve such dispute. In the event such dispute is not resolved within ten (10) days, then Landlord and Tenant shall agree on an arbitrator to resolve such matter. Provided however, Base Rent in the amount determined above by Landlord shall continue to be paid until such matter is resolved. The certificate will be provided after the issuance of the certificate of occupancy for the Facility and after Tenant has submitted its final Draw Request. Beginning with the payment due on the second anniversary of the Rent Commencement Date, and continuing with the payment due on each one-year anniversary thereafter (including during the first Renewal Term), Base Rent shall increase to an amount which is one hundred two percent (102%) of the Base Rent for the year just ended. Monthly installments of Base Rent shall be prorated for any period shorter than the number of days in a whole month.

5.2 Additional Charges/Late Payments. Except for property taxes for which funds may be escrowed and paid out as described in Section 6.4 hereof and subject to Tenant's rights of contest pursuant to the provisions of Article 14, Tenant shall pay and discharge prior to delinquency all Impositions directly to the persons to whom such Impositions are owed. If Tenant fails or refuses to pay any Impositions, Tenant shall promptly pay and discharge every fine, penalty, interest and cost which may arise or accrue for the non-payment or late payment of such items. The aforementioned amounts, liabilities, obligations, Impositions, fines, penalties, interest and costs and any and all other amounts which Tenant may owe to Landlord or any other party pursuant to the terms of this Lease are referred to herein as "Additional Charges." The Additional Charges shall constitute rent hereunder. Any payment by Tenant of Additional Charges to Landlord pursuant to any requirement of this Lease shall relieve Tenant of its obligation to pay such Additional Charges to the entity to which such payment would otherwise be paid as Landlord is required to pay such Additional Charges to the Person(s) to whom such Additional Charges are owed out of the monies paid by Tenant to Landlord for such Additional Charges.

5.3 Base Rent During Renewal Terms. The Base Rent for the any Renewal Term shall be one hundred two percent (102%) times the Base Rent for the final year of the prior term. The Base Rent for each Renewal Term shall increase each subsequent year by two percent (2%).

5.4 Late Payments. Tenant hereby acknowledges that late payment by Tenant to Landlord of any Rent due under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any Encumbrance covering the Property. Accordingly, if any Rent (but as to Additional Charges, only those which are payable directly to Landlord) shall not be paid on or before its due date, Tenant shall pay Landlord on demand, as an Additional Charge as provided below, a late charge (to the extent permitted by law) equal to five percent (5%) of the amount of such overdue Rent and, in such event, the parties hereby agree that such late charge will represent a fair and reasonable estimate of the costs Landlord will incur by reason of the late payment by Tenant. Tenant acknowledges and agrees that there is a ten (10) calendar day grace period for payment of Base Rent and that if payments are not made on or

before the eleventh (11th) day of the month, then the late charge shall be imposed. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any other rights and remedies to which it may be entitled hereunder. If Tenant fails to pay any Rent by the due date or within any applicable grace period, such Rent shall thereafter bear interest at the Overdue Rate until paid.

5.5 Triple Net Lease. It is the purpose and intent of Landlord and Tenant that the Rent shall be absolutely net to Landlord so that Tenant shall pay or discharge, as Additional Charges hereunder, any and all Impositions, charges, costs, interest, reimbursements, liabilities, expenses and obligations of any nature whatsoever in connection with the ownership, operation and maintenance of the Property, excepting only (a) any payments for principal, interest, premiums and other costs under any mortgage, security agreement, deed of trust or other Encumbrance Landlord may place upon all or any portion of the Property, and (b) any costs actually incurred by Landlord for its own benefit with respect to the Property, such as costs for attorneys, consultants or advisers retained by Landlord, provided that such costs (i) are not otherwise payable by Tenant hereunder, and (ii) do not, directly or indirectly, arise or grow out of or in connection with Tenant's nonperformance and/or noncompliance with any obligation, covenant, term or provision of this Lease and (c) those items specifically excluded from the Impositions.

5.6 No Set-off. Landlord shall receive all Rent (but as to Additional Charges, only those which are payable directly to Landlord) due hereunder and Rent shall be due and payable by Tenant in all events, without notice or demand and without any set-off, counterclaim, abatement, suspension, deduction or defense whatsoever. In addition to the Rent reserved by this Article 5 Tenant shall pay to the parties respectively entitled thereto all Impositions (subject to Tenant's rights to contest pursuant to the provisions of Article 14), insurance premiums (as provided in Article 15), operating charges, maintenance charges, construction costs and any other charges, costs, interest (except as set forth in the foregoing paragraph), reimbursements, liabilities (except as set forth in the foregoing paragraph), expenses and obligations which arise with respect to the Property or which otherwise may be contemplated under any provisions of this Lease during the Term hereof. All of such charges, costs, interest, reimbursements, liabilities, expenses and obligations shall constitute Additional Charges, and upon the failure of Tenant to pay any such costs, charges, interest, reimbursements, liabilities, expenses or obligations and if such failure is not cured within the applicable cure period described in Section 18.1 hereof, Landlord shall have the rights and remedies provided in this Lease for the failure of Tenant to pay Rent. It is the intention of the parties hereto that, except as herein expressly provided, this Lease shall not be terminable for any reason by Tenant. To the fullest extent permitted by applicable law, any present or future law to the contrary shall not alter this agreement of the parties.

5.7 Release of Additional Funds; Increase in Rent. If the entire \$21,500,000 is not funded for the construction of the Project, then Tenant, within the first two years of this Lease, and provided no Defaults or Events of Defaults hereunder have occurred or are continuing, may request disbursement of the remaining unfunded amounts. Any such disbursement shall be made only on the first day of each month. The annual Base Rent payable under this Lease shall be increased, effective as of the date the disbursement of such remaining funds, by an amount equal to (i) the amount of the remaining funds disbursed to tenant multiplied by (ii) ten percent (10.0

%) and such amount shall be and become a part of the Base Rent payable under this Lease and subject to annual adjustment for Base Rent as this Lease. As a condition to receiving such disbursement, Tenant shall execute an Addendum to this Lease setting forth the increased amount of Base Rent payable and subject to annual adjustment for the remainder of the Term as a result of the amount disbursed to Tenant hereunder.

## ARTICLE 6. IMPOSITIONS

6.1 Payment of Impositions. Subject to Tenant's rights of contest pursuant to the provisions of Article 14, Tenant shall pay, or cause to be paid, all Impositions due or becoming due during the Term from and after the Commencement Date as and when such Impositions become due and payable and directly to the parties to whom such Impositions are payable prior to the date on which any fine, penalty, interest or cost may be added for non-payment. Upon request by Landlord, Tenant shall furnish to Landlord prior to the date on which any such fine, penalty, interest or cost may be added for non-payment, copies of receipts or other reasonably satisfactory evidence of such payments. Such payments shall be made directly to the authorities levying or to the other persons entitled to such Impositions, if possible. Upon Tenant's request, Landlord will advance the cost of Impositions, to the extent included in the Development Budget, payable during construction from Construction Funds.

Tenant's obligation to pay Impositions shall be deemed absolutely fixed upon the date such Impositions become due to the authority or person entitled thereto. If any such Imposition may, at the option of the payor, lawfully be paid in installments (whether or not interest shall accrue on the unpaid balance of such Imposition), Tenant may pay the same (and shall pay any accrued interest on the unpaid balance of such Imposition) in installments, and in such event shall pay such installments (subject to Tenant's right of contest pursuant to the provisions of Article 14) as the same become due and before any fine, penalty, premium, further interest or cost is added thereto. Impositions for which escrowed funds are held by Landlord or its lender under Section 6.4 hereof shall be paid as provided in Section 6.4 and the timely payment by Tenant of any amount to be paid to Landlord under Section 6.4 or its lender shall be deemed to satisfy the Tenant's obligation to pay the Imposition for which funds are escrowed.

Landlord shall, at its expense and to the extent required or permitted by applicable laws and regulations, prepare and file (and pay at its sole cost all applicable amounts with respect to) all returns with respect to Landlord's net income, gross receipts, sales, use, single business, transaction privilege, rent, ad valorem and franchise taxes, and with respect to taxes on Landlord's capital stock. Tenant shall, at its expense, and to the extent required or permitted by applicable laws and regulations, prepare and file (and pay at its sole cost all applicable amounts with respect to) all other tax returns and reports with respect to any Imposition as may be required by governmental agencies, authorities or other persons entitled to the receipt of the Impositions.

If any refund shall be due from any taxing authority or other persons entitled to the receipt of the Impositions with respect to any Imposition paid by Tenant, the same shall be paid over to and retained by Tenant unless an Event of Default shall have occurred hereunder and be continuing, in which case such refund shall be paid over to and retained by Landlord. Any such funds retained by Landlord due to an Event of Default shall be applied as provided in

Article 18. Landlord and Tenant shall, each upon a request by the other, provide such information as is maintained by the party to whom the request is made with respect to the Property as may be reasonably necessary to prepare any required returns or reports.

If any governmental agency or authority classifies any property covered by this Lease as personal property, Tenant shall file all personal property tax returns in such jurisdictions where it may legally so file. Landlord, to the extent it possesses the same, and Tenant, to the extent it possesses the same, will provide to the other party, promptly upon request, cost and depreciation records reasonably necessary for filing returns for any property so classified as personal property. If Landlord is legally required to file any personal property tax returns, Landlord shall provide Tenant with copies of any assessment notices with respect thereto in sufficient time for Tenant to file a protest with respect thereto if it so elects pursuant to Article 14.

6.2 Notice of Impositions. Landlord shall give prompt Notice to Tenant of all Impositions payable by Tenant hereunder of which Landlord at any time has knowledge. Notwithstanding the foregoing, however, Landlord's failure to give any such Notice shall in no way diminish Tenant's obligations hereunder to pay such Impositions, but Landlord shall be responsible for any fine, penalty or interest resulting from its failure to give such Notice and any default by Tenant hereunder shall be obviated for a reasonable time after Tenant receives Notice of any Imposition which it is obligated to pay.

6.3 Adjustment of Impositions. Impositions imposed with respect to the tax period during which the Term commences or expires or terminates shall be adjusted and prorated between Landlord and Tenant, whether or not such Imposition is imposed before or after such commencement date or expiration or termination, so that Tenant is only obligated to pay that portion of such Imposition(s) pertaining to the tax period within the Term. The obligation of Tenant to pay its prorated share of Impositions shall survive expiration or earlier termination of this Lease. Likewise any refund of any Imposition paid with respect to any tax period within the Term which refund is received by Landlord during or after the expiration or termination of this Lease shall be prorated and shared with Tenant. The obligation of Landlord to pay Tenant's prorated share of any such refund shall survive expiration or earlier termination of the Lease.

6.4 Escrow for Property Taxes and Insurance Premium. Upon the written demand of Landlord with respect to the Property or if required by a lender holding a first mortgage lien on the Property or from and after a breach by Tenant of its obligations with respect to the payment of real and personal property taxes and premiums for insurance coverage required to be maintained pursuant to Article 15, which breach is not cured within ten (10) days after receipt of written notice from Landlord, Tenant shall make monthly payments to Landlord or Landlord's lender, if so directed by Landlord, in escrow on the same day Base Rent is due in the amount of one twelfth of the annual ad valorem tax, plus an amount equal to one-twelfth (1/12) of the annual premiums for required insurance coverage as to the Property. The monthly tax and property insurance premium escrow payment shall be adjusted, as necessary, from time to time to reflect changes in the annual tax amount, tax rate or changes in the assessed value of the Property, or the premiums, Landlord or Landlord's lender, as applicable, shall hold the escrowed payments in a separate account with interest. Interest earned on the escrow shall be reported as income to Tenant and shall be paid to Tenant annually upon request, provided that there is no

monetary Event of Default then outstanding hereunder. To the extent that sufficient funds exists in the escrow account, Landlord shall release funds from the escrow account to pay to the tax authorities the installments of tax due on the Property or any part thereof, and to pay to the insurance companies or agents. If there are not sufficient funds in the escrow account to meet an installment when due, upon receipt of a written request from Landlord setting forth in reasonable detail the shortfall amount, the Tenant shall pay to Landlord the shortfall in order for the full payment then due to be paid. In the event that Tenant pays any payment to the taxing authority for which funds are held in the escrow account, Landlord shall reimburse Tenant for such payment upon Landlord's receipt of proof of full payment to the tax authority and insurance companies.

6.5 Utility Charges. Tenant shall pay or cause to be paid all charges (including any connection charges and deposits) for all utilities, including, but not limited to, electricity, power, gas, oil and water, used at or for the Property during the Term.

6.6 Insurance Premiums. Tenant shall pay or cause to be paid all premiums for insurance coverage required to be maintained pursuant to Article 15.

#### **ARTICLE 7. TERMINATION OR ABATEMENT OF LEASE**

7.1 No Termination. Tenant, to the fullest extent permitted by law and unless specifically provided herein, shall remain bound by this Lease in accordance with its terms in all events. Except as expressly provided in Articles 16 or 17, Tenant shall not take any action without the prior written consent of Landlord to modify, surrender or terminate this Lease.

7.2 No Abatement. The obligations of Landlord and Tenant hereunder shall be separate and independent covenants and agreements, and Rent and all other sums shall continue to be payable by Tenant hereunder in any event. Without limiting the generality of the immediately preceding sentence Tenant shall not seek or be entitled to any abatement, deduction, deferment or reduction of Rent, or set-off against Rent, nor shall the respective obligations of Landlord and Tenant be otherwise affected by reason of (i) any damage to, or destruction of, all or any portion of the Property from whatever cause or any Taking of all or any portion of the Property; (ii) the lawful or unlawful prohibition of, or restriction upon, Tenant's use of all or any portion of the Property or the interference with such use or with Tenant's quiet enjoyment of the Property by any person or entity, unless such prohibition, restriction or interference is caused by any act or omission of Landlord, its agents, servants, employees or contractors; (iii) the eviction of Tenant from the Property or any portion thereof by any person whose rights or interest arise other than by, through or under Landlord, whether by paramount title or otherwise; (iv) any claim which Tenant has or may have against Landlord by reason of any default or breach of any warranty by Landlord under this Lease or any other agreement between Landlord and Tenant or to which Landlord and Tenant are parties; (v) any bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding up or other proceeding affecting Landlord or any assignee or transferee of Landlord; or (vi) any other cause, whether similar or dissimilar to any of the foregoing. Provided however, to the extent Tenant uses proceeds of Business Interruption Insurance to pay monthly Rent or proceeds of Rent Loss Insurance maintained by Tenant are paid to Landlord as monthly Rent then Landlord will not be entitled to collect Rent for that month.



7.3 Waiver. Except as aforesaid, Tenant hereby specifically waives all rights, arising from any occurrence whatsoever, which (i) may now or hereafter be conferred upon it by law or otherwise to modify, surrender or terminate this Lease or quit or surrender all or any portion of the Property or (ii) entitle Tenant to any abatement, reduction, suspension or deferment of Rent or other sums payable by Tenant hereunder.

## **ARTICLE 8. FACILITY FF&E AND OTHER CAPITAL IMPROVEMENTS**

8.1 Minimum Capital Expenditures. Beginning with the fourth anniversary of the Rent Commencement Date (prorated for any period less than a year), Tenant agrees that during each calendar year thereafter Tenant will incur expenditures at the Property, which expenditures are either (a) accounted for as capitalized expenditures under generally accepted accounting principles or (b) made for Facility FF&E ("Capital Expenditures") in the amount of One Thousand Dollars (\$1,000) per licensed bed (the "Targeted Expenditure Amount"). With respect to the final calendar year during which this Lease expires or is terminated (except if terminated pursuant to Articles 16 or 17), Tenant shall pay to Landlord any shortage in required Capital Expenditures based upon the Targeted Expenditure Amount; provided, however, the Targeted Expenditure Amount shall be prorated on a daily basis for any period of less than a full calendar year. The Targeted Expenditure Amount shall also be prorated on a daily basis for the first year this Section applies. Notwithstanding any provision contained herein to the contrary, Tenant may incur amounts in any calendar year in excess of the Targeted Expenditure Amount and the excess shall be credited in reduction of the Targeted Expenditure Amount for the next calendar year; compliance shall be measured on a rolling two (2) year basis. At the Completion Date, Tenant will provide Landlord with a list of the Facility FF&E purchased by Tenant. In addition, during the term of the Lease, Tenant shall, within fifteen (15) days of acquisition, give Landlord notice of any Facility FF&E which has been financed by Landlord. Such Facility FF&E financed by Landlord shall be deemed to be the property of the Landlord.

8.2 Capital Improvement Reserve. If the report furnished to Landlord under Section 23.6 shows that Tenant failed during the applicable period to make (or cause to be made) the required Capital Expenditures under Section 8.1 with respect to the Property or Facility FF&E or if required by Landlord's lender, Tenant shall at such time fund a separate escrow account therefor with Landlord under the control of Landlord (the "Cap Ex Account") in the amount of such shortfall. Provided that no uncured monetary Event of Default exists at the time of any requested withdrawal and provided further that Tenant is not in default under the Capital Improvement Reserve Agreement, Tenant shall have the right during the Term to request withdrawals from the Cap Ex Account from time to time solely for the purpose of seeking reimbursement for Capital Expenditures incurred by Tenant in maintaining, replacing, restoring and repairing the Property or, if the cost of such item exceeds Twenty-Five Thousand Dollars (\$25,000), making payment directly to the contractor or material supplier for such Capital Expenditures, after receipt of customary lien waivers. The mere use of the funds in the Cap Ex Account shall not alone be sufficient evidence of Tenant's compliance with its obligations under Section 8.1. To the extent not otherwise specifically provided for in this Section 8.2, the Cap Ex Account shall be governed by the Capital Improvement Reserve Agreement attached hereto as Exhibit C, which shall be executed herewith.

8.3 Cap Ex Account Withdrawals. Upon expiration or termination of this Lease or termination of Tenant's right to possession of the Property pursuant to Article 18, the funds in the Cap Ex Account shall automatically and immediately become the property of Landlord, and Tenant shall not thereafter be permitted to make any further withdrawals from the Cap Ex Account.

8.4 Alterations. Tenant, either directly or indirectly, may not make any material structural alteration or Capital Additions to the Property, without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. For the avoidance of doubt, landscaping, painting, floor and wallcovering replacements and any other non-structural alterations or improvements shall not be deemed to be alterations within the meaning of this provision. Provided further, the addition of 36 additional beds for psychiatric care shall be permitted hereunder on the condition that: (i) such change is approved by the TDH and is pursuant to a valid certificate of need; (ii) such addition does not necessitate any construction, demolition or other physical change to the Facility; (iii) the additional beds are to serve existing programs and services; and (iv) the additional beds are not transferable to other facilities.

8.5 Consent by Landlord. Landlord's consent to any material structural alteration under Section 8.4 or Capital Expenditures shall be deemed granted if it does not provide Tenant written notice of its objection to such proposed expenditures within 30 days of its receipt of notice of the proposed expenditures (or not less than 48 hours in case of emergencies where such Alterations are necessary to protect or preserve any Improvements). In the event Landlord does provide an objection to any material structural alteration or Capital Additions under Section 8.4 or a Capital Expenditure on a timely basis, Tenant shall be entitled to revise the request to take into consideration Landlord's objection. In such event Tenant shall be entitled to resubmit the request for Landlord's consent and the provisions of this Section shall again apply to each such resubmittal. The process shall continue until the Landlord's consent is obtained or deemed given or Tenant withdraws the request.

## **ARTICLE 9. OWNERSHIP AND USE OF PROPERTY**

9.1 Ownership of the Property. The Property is, and throughout the Term shall continue to be, the property of Landlord. Tenant has only the right to the exclusive possession and use of the Property, upon the terms and subject to the conditions set forth in this Lease. Tenant acknowledges and agrees that to the extent and only to the extent permitted by law, title to (i) any zoning or building approvals, or other governmental approvals (the "Approvals") which, by their nature, pertain to the Property, its ownership and its use and occupancy and (ii) all Licenses and permits (excluding Healthcare Permits) which, by their nature, pertain specifically to the Property, its ownership and its use and occupancy shall, in every respect, be owned by Landlord and are not and shall not be the property of Tenant. Tenant shall take no action and shall have no right, power or authority to encumber same or to sell, assign or transfer same, either during the Term or upon any termination of this Lease, or to use, in any manner which would impair or adversely affect the use of such Approvals.

9.2 Healthcare Laws and Permits.

(a) Upon commencement of operations of the Facility as a sixty (60)-bed general hospital providing medical detoxification, psychiatric – adult and geriatric, and medical rehabilitation services and at all times thereafter, Tenant will:

(i) maintain in full force and effect, and free from restrictions, probations, conditions or known conflicts which would materially impair the use or operation of the Facility for its current use, all Healthcare Permits necessary under Healthcare Laws (A) to carry on the business of Tenant as a sixty (60)-bed general hospital providing medical detoxification, psychiatric – adult and geriatric, and medical rehabilitation services, and (B) to receive reimbursement under Medicare and Medicaid in substantial compliance with all requirements for participation in, and for the licensure required to provide the services that are reimbursable under, Medicare and Medicaid, including, without limitation, the Medicare and Medicaid Patient Protection Act of 1987, as the same may be amended, and such other Third Party Payor Programs which Tenant has contracted with;

(ii) not suffer or permit to occur any of the following:

(A) any transfer of a Healthcare Permit or rights thereunder to any Person or to any other location;

(B) any pledge or hypothecation of any Healthcare Permit as collateral security for any indebtedness other than hereunder;

(C) any rescission, withdrawal, revocation, amendment or modification of or other alteration to the nature, tenor or scope of any Healthcare Permit, including, without limitation, (I) any change to the authorized units/beds capacity (other than as provided by Section 8.4) of the Facility and/or the number of units/beds (other than as provided by Section 8.4) approved by the applicable Governmental Authority, and (II) any transfer all or any part of the Facility's authorized units or beds to another site or location;

(D) without Landlord's prior written consent, which shall not be unreasonably withheld, the provision by Tenant of regulated services in addition to those required by Healthcare Permits; or

(E) any fact, event or circumstance which has or will have a Material Adverse Effect on Tenant;

(iii) cause all Healthcare Permits and any other agreements necessary for the use and operation of the Facility or as may be necessary for participation in Third Party Payor Programs under contract with Tenant to remain in effect without reduction in the number of licensed beds or beds authorized for use in applicable programs of Third Party Payors, unless arising from changes in applicable law affecting all similarly situated facilities or arising from new or additional uses of the Facility, as long as consistent with Permitted Uses;

(iv) provide to Landlord upon reasonable request, an accurate, complete and current list of all participation agreements with Third Party Payors with respect to the business of Tenant; and

(v) maintain a corporate health care regulatory compliance program ("CCP") which includes at least the following components and allow Landlord and/or any outside consultants from time to time to review such CCP: (A) standards of conduct and procedures that describe compliance policies regarding laws with an emphasis on prevention of fraud and abuse; (B) specific officer within high-level personnel identified as having overall responsibility for compliance with such standards and procedures; (C) training and education programs which effectively communicate the compliance standards and procedures to employees and agents, including, without limitation, fraud and abuse laws and illegal billing practices; (D) auditing and monitoring systems and reasonable steps for achieving compliance with such standards and procedures including, without limitation, publicizing a report system to allow employees and other agents to anonymously report criminal or suspect conduct and potential compliance problems; (E) disciplinary guidelines and consistent enforcement of compliance policies including, without limitation, discipline of individuals responsible for the failure to detect violations of the CCP; and (F) mechanisms to immediately respond to detected violations of the CCP.

(b) Beginning on the one-year anniversary of the Rent Commencement Date and at all times thereafter, the Facility shall be accredited by JCAHO and Tenant shall (i) maintain such accreditation in good standing and without limitation or impairment, (ii) promptly submit to JCAHO a plan of correction for any deficiencies listed on any JCAHO accreditation survey report, and (iii) cure all such deficiencies within such time frame as is necessary to preserve and maintain in good standing and without limitation or impairment such JCAHO accreditation.

(c) Upon commencement of operations of the Facility and issuance of the license by TDH to operate the Facility as a sixty (60)-bed general hospital providing medical detoxification (9 beds), psychiatric – adult and geriatric (24 beds), and medical rehabilitation services (27 beds) (the "TDH License") and at all times thereafter, Tenant has and shall maintain in full force and effect the TDH License for no less than sixty (60) licensed beds (unless modified with the prior consent to Landlord), and free from restrictions or known conflicts which would materially impair the use or operation of the Facility for its current use, and shall not permit TDH License to become provisional, probationary or restricted in any way.

9.3 Use of the Property. Throughout the entire Term and subject to Tenant's due contest right as set forth in Article 14, Tenant shall use the Property solely in accordance with its Permitted Use(s) in full compliance with all applicable Legal Requirements and all other terms, covenants, provisions and conditions of this Lease. Tenant shall not permit or consent to the cancellation, lapse or amendment of any License or permit required to operate the Property for its Permitted Use other than amendments arising from changes in applicable law affecting all similarly situated facilities arising from new or additional uses of the Property as long as such

uses are consistent with the Permitted Use. Tenant may not use the Property or the Facility for other than the Permitted Use without the prior written consent of Landlord. Tenant shall not commit or suffer to be committed any waste nor shall Tenant cause or permit any nuisance on the Property.

Tenant shall neither suffer nor permit all or any portion of the Property or the Facility, including any Capital Addition, whether or not financed or paid for by Landlord, to be used in such a manner as (i) may impair the Landlord's title to the Property or to any portion thereof or (ii) may make possible a claim or claims of adverse use, adverse possession or implied dedication of all or any portion of the Property to the public.

9.4 Continuous Operations. Once the Facility is operational, Tenant shall maintain continuous operations of the sixty (60)-bed (other than as may be increased pursuant to Section 8.4) general hospital providing medical detoxification (9 beds), psychiatric – adult and geriatric (24 beds), and medical rehabilitation services (27 beds) on the Property in accordance with the provisions of this Lease and shall not cease such operations other than a temporary cessation caused by Unavoidable Delays. Tenant shall not voluntarily reduce the number of beds for which the Facility has licenses to operate, and Tenant shall not permanently close any units or beds in the Facility without the prior written consent of Landlord, which shall not be unreasonably withheld. Notwithstanding any provision contained herein to the contrary, Tenant shall have the right, with the prior written consent of the Landlord, not to be unnecessarily withheld, to increase the number of licensed beds at any time, and establish a separately licensed psychiatric hospital or other licensed provider on the Property.

9.5 Hazardous Substances. For the purposes of this Section only, the term “Real Property” shall refer to the real property and Improvements which are part of the broader defined term Property and all air, soil, groundwater, surface water or soils vapor at, on, about, under or within any portion of such real property and Improvements.

(a) Tenant will keep the Real Property free and clear of all Hazardous Substances other than those Hazardous Substances which are required for the operation of the Real Property (which Hazardous Substances shall be handled, used and disposed of in strict compliance with the Legal Requirements and Insurance Requirements) and Tenant shall pay all costs required to properly use, handle, remediate and dispose of all Hazardous Substances introduced by Tenant or its Agents (as defined below) or otherwise discovered or arising on the Real Property as and when due and Tenant will keep the Real Property free and clear of any lien relating to Hazardous Substances discovered or arising on the Real Property which may be imposed pursuant to the Legal Requirements and imposed as a result of the presence of such Hazardous Substance on the Real Property.

(b) All operations or activities upon, or any use or occupancy of the Real Property, or any portion thereof, by Tenant, or any agent, contractor or employee, or subtenant of Tenant (any of the foregoing being defined herein as Tenant's “Agent”) shall at all times during the Term be in all respects in strict compliance with any and all Legal Requirements relating to Hazardous Substances, including, but not limited to, the discharge and removal of Hazardous Substances.

(c) Tenant will not, nor will Tenant permit, any agent, contractor or employee or subtenant of Tenant, to allow the manufacture, storage, voluntary transmission or presence of any Hazardous Substances over or upon the Real Property or any portion thereof (except in strict compliance with the Legal Requirements). Landlord shall have the right at any time to conduct, at its cost, an environmental audit of the Real Property or any portion thereof and Tenant shall reasonably cooperate in the conduct of such environmental audit. Furthermore, Tenant will not, nor will Tenant permit any Agent to, install or permit to be installed (except in strict compliance with applicable Legal Requirements), in or on the Real Property or any portion thereof, friable asbestos or any substance containing asbestos or similarly deemed hazardous by governmental authorities or the Legal Requirements respecting such materials.

(d) Tenant shall promptly notify Landlord in writing of any order, receipt of any notice of violation or noncompliance with any applicable law, rule, regulation, standard or order, any threatened or pending action by any regulatory agency or other governmental authority, or any claims made by any third party, in each case relating to Hazardous Substances on, emanations of Hazardous Substances on or from, releases of Hazardous Substances on or from, or threats of releases on or from any of the Real Property; and shall promptly furnish the Landlord with copies of any correspondence, notices, or legal pleadings in connection therewith. Landlord shall have the right, but shall not be obligated, to notify any governmental authority of any state of facts which may come to its attention with respect to Hazardous Substances on, released from or emanating from any part of the Real Property which Landlord reasonably believes may cause harm to any persons or Real Property.

(e) Without limiting Section 21.1, Tenant agrees to indemnify, protect, defend (with counsel reasonably approved by Landlord) and hold Landlord, and the directors, officers, shareholders, employees and agents of Landlord, harmless from any claims (including, without limitation, third party claims for personal injury or real or personal Real Property damage, or natural resources damage), actions, administrative proceedings (including informal proceedings), judgments, damages, punitive damages, penalties, fines, costs, liabilities (including sums paid in settlements of claims), interest or losses, including reasonable attorneys' and paralegals, fees and expenses (including any such fees and expenses incurred in enforcing the environmental covenants and obligations of Tenant under this Lease or collecting any sums due hereunder), consultant fees, and expert fees, together with all other costs and expenses of any kind or nature that arise directly or indirectly from or in connection with the presence, suspected presence, release or threatened release of any Hazardous Substance in or into or at, on, about, under or within the Real Property, or any portion thereof, whether or not as a result of the acts or omissions of Tenant or its Agents during the Term of this Lease (collectively, the "Costs"). Costs include only Landlord's actual damages but not consequential damages. The indemnification provided in this subsection shall specifically apply to and include claims or actions brought by or on behalf of employees of Tenant, or contractors, or employees of contractors of Tenant and, as between Landlord and Tenant, Tenant hereby expressly waives any immunity to which Tenant may otherwise be entitled under any industrial or worker's compensation laws.

In the event Landlord shall suffer or incur any such documented Costs, Tenant shall pay to Landlord the total of all such Costs suffered or incurred by Landlord upon demand therefor by Landlord. Without limiting the generality of the foregoing, the indemnification provided by this subsection shall specifically cover Costs, including capital, operating and maintenance costs, incurred in connection with any investigation or monitoring of site conditions, any clean-up, containment, remedial, removal or restoration work required or performed by any Federal, state or local governmental agency or political subdivision or performed by any non-governmental entity or person because of the presence, suspected presence, release or suspected release of any Hazardous Substance in or into the air, soil, groundwater, surface water or soil vapor at, on, about, under or within the Real Property (or any portion thereof), and any claims of third parties for loss or damage due to such Hazardous Substance. In addition, the indemnification provided by this subsection shall include, without limitation, all loss or damage sustained by Landlord or any third party due to any Hazardous Substance that migrates, flows, percolates, diffuses or in any way moves onto, into or under the air, soil, groundwater, surface water or soil vapor at, on, about, under or within the Real Property (or any portion thereof).

(f) In the event any investigation or monitoring of site conditions or any clean-up, containment, restoration, removal or other remedial work is required under any applicable Legal Requirement, any judicial order, or any order of any governmental entity, or in order to comply with any agreements affecting all or any portion of the Real Property because of, or in connection with, any occurrence or event described in subsection (e) above (collectively, the "Remedial Work"), Tenant shall perform or cause to be performed the Remedial Work in compliance with such law, regulation, order or agreement and subject to the final review and reasonable approval of Landlord for compliance with Legal Requirements; provided, that Tenant may withhold such compliance pursuant to a good faith dispute regarding the application, interpretation or validity of the law, regulation, order, or agreement, subject to the requirements of subsection (g) below; provided, however, that Landlord shall reasonably cooperate with Tenant to the extent necessary to deliver such authorization as may be required in order for Tenant to perform its obligations under this subsection.

All Remedial Work shall be performed by one or more contractors, selected by Tenant and reasonably approved in advance in writing by Landlord in its reasonable discretion, and under the supervision of a consulting engineer, selected by Tenant and reasonably approved in advance in writing by Landlord in its reasonable discretion. All reasonable costs and expenses of such Remedial Work shall be paid by Tenant, including, without limitation, the reasonable charges of such contractor(s) and/or the consulting engineer and reasonable costs incurred by Landlord "in house" (such as photocopying charges and travel costs for Landlord's employees) in connection with monitoring or review of such Remedial Work. In the event Tenant shall fail timely to commence, or cause to be commenced, or fail diligently to prosecute, or cause to be prosecuted, to completion, or fail to complete, or cause to be completed, to Landlord's reasonable satisfaction, such Remedial Work in compliance with Legal Requirements, Landlord may, but shall not be required, to cause such Remedial Work to be performed, and all reasonable documented costs and expenses thereof, or incurred in connection

therewith, shall be Costs within the meaning of subsection (e) above. All such Costs payable pursuant to the foregoing sentence shall be due and payable upon demand therefor by Landlord. If Tenant fails to perform its obligations hereunder, Landlord shall be subrogated to any rights Tenant may have under any indemnifications from any present, future or former owners, tenants or other occupants or users of the Real Property (or any portion thereof), relating to the matters covered by this Section.

(g) Notwithstanding any provision of this Section to the contrary, but without limiting the provisions of Article 14 or Tenant's obligations of protection, defense and indemnification under Section 9.5(e), Tenant will be permitted to contest or cause to be contested, subject to compliance with the requirements of this subsection (g) and Article 14, by appropriate action any Remedial Work requirement, and Landlord shall not perform such requirement on its behalf, so long as Tenant has given Landlord Notice that Tenant is contesting or shall contest or cause to be contested the same, and Tenant actually contests or causes to be contested the application, interpretation or validity of the governmental law, regulation, order or agreement pertaining to the Remedial Work by appropriate proceedings conducted in good faith with due diligence; provided, such contest shall not subject Landlord to civil liability and does not jeopardize Landlord's interest in the Real Property or affect in any way the payment of any sums to be paid under this Lease. Tenant shall give such security or assurances as may be reasonably required by Landlord to insure compliance with the legal requirements pertaining to the Remedial Work (and payment of all costs, expenses, interest and penalties in connection therewith) and to prevent any sale, forfeiture or loss by reason of such nonpayment or noncompliance.

(h) The obligations of Tenant under this Section shall survive expiration or earlier termination of this Lease. Any costs and other payments required to be paid by Tenant to Landlord under this Section which are not paid within sixty (60) days after a written demand therefor, shall thereupon be considered delinquent. Tenant shall pay to Landlord immediately upon demand therefor interest on such overdue amounts, from the date when due until paid, at the Overdue Rate.

## **ARTICLE 10. LEGAL REQUIREMENTS AND INSURANCE REQUIREMENTS**

10.1 Compliance with Legal Requirements, Insurance Requirements and Instruments. Subject to the rights of Tenant as provided in Article 14 relating to permitted contests, Tenant, at its sole cost and expense, shall promptly (a) comply with all applicable Legal Requirements and Insurance Requirements with respect to the use, operation, maintenance, repair and restoration of the Property, whether or not compliance therewith shall require the construction of any additional parking spaces or the structural change in the Property or interfere with the use and enjoyment of the Property, and (b) procure, maintains and comply with all Healthcare Permits necessary for the Permitted Use and procure, maintain and comply in all material respects with all other appropriate Licenses necessary for any use of the Property for the Permitted Use(s), and any other use conducted on the Property by Tenant and any Third Party Occupants or as otherwise permitted by Landlord hereunder, and for the proper erection, installation, operation and maintenance of the Property or any part thereof, including, without limitation, any Capital



Additions. Tenant shall notify Landlord within five (5) days of Tenant's obtaining knowledge or notice of action by any federal, state or local agency (or the staff thereof) to revoke, withdraw or suspend any License, or an action of any other type, which would have a materially adverse effect on Tenant's operations at the Property. All sublease agreements entered into after the date of this Lease will require compliance with all of the above.

10.2 Landlord's Cooperation. Landlord shall cooperate, as reasonably necessary or required, with Tenant in applying for and maintaining all appropriate Licenses necessary to operate the Property for the Permitted Use(s) in accordance with the provisions of this Lease and to otherwise comply with applicable Legal Requirements, provided that such cooperation is in conformance with all Legal Requirements. Tenant shall promptly advance to Landlord such amounts as are reasonably necessary to pay for all reasonable costs and expenses incident to such cooperation. Tenant agrees to indemnify, defend, protect, save and hold Landlord harmless from and against any and all reasonable costs, expenses, losses, demands, claims, obligations and liabilities against or incurred by Landlord in connection with such cooperation, except in any cases of fraud, misrepresentation, gross negligence, willful misconduct, or intentional non-compliance with Legal Requirements on the part of Landlord. Such indemnity shall survive the expiration or termination of this Lease.

## **ARTICLE 11. CONDITION OF THE PROPERTY**

11.1 Maintenance and Repair. Tenant, at its sole cost and expense, shall keep the Property in good order, condition and repair; provided, however, Tenant may abandon or sell Facility FF&E that is obsolete, in need of replacement, or no longer used provided that Tenant replaces such Facility FF&E with Facility FF&E of similar quality and utility (unless such Facility FF&E is no longer used). Any such replacement Facility FF&E purchased with funds provided by Landlord will be deemed property of the Landlord. Provided however, Facility FF&E purchased with funds from the Cap Ex Account shall be deemed to be the property of the Tenant. Except as may otherwise be expressly provided to the contrary in Articles 8, 15, 16, or 17, Tenant shall with reasonable promptness, at Tenant's sole cost and expense, make all necessary and appropriate maintenance, repairs and replacements thereto of every kind and nature, whether interior or exterior, structural or nonstructural, ordinary or extraordinary, patent or latent, foreseen or unforeseen, and regardless of the cause necessitating repair. Tenant's duty to maintain the Property and the Facility FF&E shall include such actions as are needed in the reasonable judgment of Tenant to be consistent with standards and practices in the industry to prevent the deterioration of the Property. Tenant shall also be obligated at its expense to make all repairs, modifications and renovations necessary to comply with all licensing, safety and health and building codes and regulations applicable to the Property so that the Property can be legally operated for its Permitted Use(s). Tenant shall be obligated to repair at Tenant's sole cost and expense any damage to any portion of the Property, caused by cave-ins, collapse of subsurface support, subsidence of the surface of the Property). All repairs by Tenant shall be made in a good and workmanlike manner using materials of good quality. Tenant shall not take or omit to take any action, the taking or omission of which would materially impair the value or the usefulness of all or any portion of the Property for the Permitted Use(s).

11.2 Landlord Not Obligated. Landlord shall not under any circumstances be required to build or rebuild the Property, or to make any repairs, replacements, alterations, restorations or

renewals of any nature or description to the Property, whether interior or exterior, structural or nonstructural, ordinary or extraordinary, patent or latent, foreseen or unforeseen, or to make any expenditure whatsoever with respect thereto, in connection with this Lease, nor shall Landlord under any circumstances be required to maintain the Property or any portion thereof in any way or manner whatsoever. Tenant hereby waives, to the fullest extent permitted by law, the right to make repairs at the expense of Landlord pursuant to any law or equitable principle in effect at the time of the execution of this Lease or hereafter enacted. Landlord shall have the right to give, record and post, at the Property and otherwise, as appropriate, notices of non-responsibility under any construction or mechanic's lien laws now or hereafter existing, and any other notices of a similar nature that Landlord may reasonably elect to give, record or post from time to time during the Term. Use of casualty insurance proceeds held by Landlord shall be handled as provided in Article 16.

11.3 No Consent. Nothing contained in this Lease, and no action or inaction by Landlord, shall be deemed or construed in any manner as (i) constituting the consent or request of Landlord, expressed or implied, to any contractor, subcontractor, laborer, materialman or vendor to or for the performance of any labor or services or the furnishing of any materials or other property for the construction, alteration, addition, repair or demolition of or to all or any portion of the Property or (ii) giving Tenant any right, power or permission to contract for or permit the performance of any labor or services or the furnishing of any materials or other property in such a manner as would permit the making of any claim against Landlord or Landlord's interest in any portion of the Property with respect thereto, or to make any agreement that may create, or in any way may be the basis for the assertion of any right, title, interest, lien, claim or other encumbrance upon the estate of Landlord in all or any portion of the Property. This section shall not be effective until the Rent Commencement Date.

11.4 Surrender of Property. Tenant shall, upon the expiration or earlier termination of this Lease, vacate and surrender the Property to Landlord in the condition in which the Property was originally received from Landlord, except as repaired, rebuilt, restored, altered, abandoned or added to as permitted or required by the provisions of this Lease, and except for casualty, condemnation or ordinary wear and tear (but subject to the obligation of Tenant under this Section to maintain the Property in good order, condition and repair during the entire Term of this Lease) and subject to the provisions of this Lease with respect to casualties, insurance proceeds and condemnation and containing such Inventory to operate the Property in the ordinary course of business for a period of no less than seven (7) days after the expiration or earlier termination of this Lease.

11.5 Encroachments. If any portion of the Property at any time during the Term shall impair the rights of others under any easement or right-of-way burdening the Land, provided that such restriction or easement does not exist prior to the Commencement Date and has been created by Tenant without the consent of Landlord, then promptly upon the request of Landlord, and, in the event of an adverse final determination, Tenant shall, at Tenant's sole cost and expense, but in conjunction with Landlord, obtain valid and effective waivers or settlements of all claims, liabilities and damages resulting from each such encroachment, violation or impairment, whether the same shall affect Landlord or Tenant, subject to Landlord's consent to all such settlements or waivers. In any event Tenant shall, subject to Landlord's reasonable consent, take all such actions as may be necessary in order to be able to continue the operation of

the Property for the then existing use substantially in the manner and to the extent the Property was operated prior to the assertion of such violation or impairment. Notwithstanding the provisions of this Section 11.5 to the contrary, Tenant shall not be responsible for any claims to the extent such claims are covered by Landlord's or Tenant's title insurance policy, if any, and Landlord agrees that any proceeds recovered under any such title insurance policy, if any, shall be made available to remedy the claimed violation or restriction.

## ARTICLE 12. SECURITY/FINANCIAL COVENANTS

12.1 Security Agreement. Tenant shall execute in favor of Landlord a security agreement in the form attached as Exhibit J hereto (the "Security Agreement"), granting to Landlord a security interest in all Tenant's now or hereafter existing or arising personal property, including, but not limited to, all equipment, fixtures, the Facility FF&E, licenses, accounts, chattel paper, documents, instruments, investment property, deposit accounts, letter of credit rights, commercial tort claims, inventory, general intangibles, contract rights, healthcare insurance receivables (to the extent permitted by applicable law) and books and records, and other interests of Tenant, which security interest shall secure the payment of all Rent and the performance of all other obligations of the Tenant under this Lease. Tenant shall cooperate and be responsible for costs associated with the filing of all financing statements needed to perfect such security interests throughout the Lease Term, which, at Tenant's request, shall be initially advanced or reimbursed upon request of Tenant by Landlord as a portion of the Construction Funds provided such expenses are part of the Development Budget. Landlord will have first priority interest in all such collateral. Provided however, notwithstanding the foregoing, Landlord shall agree to subordinate (a) its security interest in the healthcare insurance receivables of Tenant to a line of credit secured by accounts not to exceed Three Million Dollars (\$3,000,000) and (b) its interest in leased or purchased Facility FF&E to purchase money loans used to acquire or lease such Facility FF&E.

12.2 Collateral Assignment/Pledge of Ownership Interests. FēnX's obligations under the Guaranty shall be secured by the collateral assignment to or pledge in favor of Landlord in and unto its ownership interest in Tenant, which at no time will be less than one hundred percent (100%) of ownership interest in Tenant.

12.3 Compliance with Minimum Financial Covenants. The Tenant will operate the Property and during the term of this Lease in order to meet the following minimum financial standards:

(a) *Current Ratio*. Commencing with the quarter ending June 30, 2013 and measured each quarter thereafter, the Current Ratio shall not be less than 1.15 to 1.00.

(b) *Lease Coverage Ratio*. Beginning with the sixth full quarter after the issuance of the TDH License and continuing for each twelve (12) month period thereafter (testing to be on a rolling twelve (12) months basis with the first year of the testing to be cumulative and build to twelve (12) months), Tenant shall maintain the following Lease Coverage Ratio: Year 1 – 1.25 to 1; Year 2 – 1.65 to 1; Year 3 through termination of the Lease – 1.85 to 1. Notwithstanding the foregoing, Tenant shall not be deemed in violation of the terms of the Lease Coverage Ratio as at the end of any quarter on a

twelve month basis if the Lease Coverage Ratio is less than the amounts set forth above and Tenant deposits in an escrow account under Landlord's control, within thirty (30) days after the end of such quarter, additional cash collateral in an amount equal to the Lease Coverage Shortfall Amount for such period. Thereafter, Tenant and Landlord shall adjust the amount of such cash collateral so that it equals the Lease Coverage Shortfall Amount as at the end of the then most recently ended fiscal quarter. Landlord shall promptly release such Lease Coverage Shortfall Amount back to Tenant upon receipt of an Officer's Certificate which reflects compliance with the covenant set forth above. As used herein, the term "Lease Coverage Shortfall Amount" is the amount of cash required to cause Tenant to be in compliance with the Lease Coverage Ratio set forth above. Any cash collateral provided by Tenant to fund the Lease Coverage Shortfall Amount under this paragraph shall apply and be accounted for as necessary to fund the "Fixed Charge Shortfall Amount" described below.

(c) *Fixed Charge Coverage Ratio.* Beginning with the sixth full quarter after the issuance of the TDH License and continuing for each twelve (12) month period thereafter (testing to be on a rolling twelve (12) months basis with the first year of the testing to be cumulative and build to twelve (12) months), and continuing for each twelve (12) month period thereafter, Tenant shall maintain the following Fixed Charge Coverage Ratio: Year 1 – 1 to 1; Year 2 – 1.15 to 1; Year 3 through termination of the Lease – 1.40 to 1. Notwithstanding the foregoing, Tenant shall not be deemed in violation of the terms of the Fixed Charge Coverage Ratio if at the end of any quarter on a twelve month basis the Fixed Charge Coverage Ratio is less than the amounts set forth above and Tenant deposits in an escrow account under Landlord's control, within thirty (30) days after the end of such quarter, additional cash collateral in an amount equal to the Fixed Charge Shortfall Amount for such period. Thereafter, Tenant and Landlord shall adjust the amount of such cash collateral so that it equals the Fixed Charge Shortfall Amount as at the end of the then most recently ended fiscal quarter. Landlord shall promptly release any excess Fixed Charge Shortfall Amount back to Tenant upon receipt of an Officer's Certificate which reflects compliance with the covenant set forth above. As used herein, the term "Fixed Charge Shortfall Amount" is the amount of cash required to cause Tenant to be in compliance with the Fixed Charge Coverage Ratio set forth above. Any cash collateral provided by Tenant to fund the "Fixed Charge Shortfall Amount" under this paragraph shall apply and be accounted for as necessary to fund the "Lease Coverage Shortfall Amount" described above.

12.4 Compliance with Minimum Covenants (Polaris). Polaris Hospital Company LLC will meet the following minimum financial standards on a consolidated basis:

(a) *Net Worth Covenant.* Commencing on the Commencement Date and measured each quarter thereafter, maintain a minimum Net Worth of Two Million Dollars (\$2,000,000). The Preferred equity investment in Polaris Hospital Company, LLC by HCP Polaris Investment Corporation shall be considered owner's equity.

(b) *Liquidity Covenant.* Commencing on the Commencement Date and measured each quarter thereafter, Polaris will maintain a minimum Liquidity of One Million Dollars (\$1,000,000).

12.5 Lease Guaranty. The performance of Tenant's obligations under this Lease shall be jointly and severally guaranteed by the Guarantors, pursuant to unlimited Lease Guaranties (the "Lease Guaranties") in form and substance acceptable to Landlord. Provided however, the following Lease Guaranties shall be limited as follows: Kevin Lee – Five Million Dollars (\$5,000,000); Dr. Richard N. Schott – Two Million Dollars (\$2,000,000); Dr. Charles R.F. Treadway – One Million Dollars (\$1,000,000). Mr. Lee's guaranty shall remain throughout the lease term. Once the Facility achieves a 1.85 to 1 Lease Coverage Ratio ("LCR") for two (2) consecutive years based on audited financial statements then the guaranty amount shall be reduced by fifty percent (50%) for Drs. Schott and Treadway. The guarantees shall be removed in full for Dr. Richard N. Schott and Dr. Charles R.F. Treadway once the Facility achieves a 2 to 1 LCR for a 2-year period based on audited financial statements. If the Facility achieves a 2 to 1 LCR in the first 2-year period, then the guarantees shall be removed at that time with no fifty percent (50%) reduction.

12.6 Letters of Credit. On the Commencement Date, as a condition to Landlord's requirement to advance any Construction Funds, Tenant shall obtain letters of credit (the "Letters of Credit") in favor of and in a form reasonably acceptable to Landlord and issued by Harris Bank or a bank reasonably acceptable to Landlord in the aggregate amount of Four Million Five Hundred Thousand Dollars (\$4,500,000).

One of the Letters of Credit shall be in the amount of Two Million Dollars (\$2,000,000) which may be drawn on by Landlord at any time Tenant fails to make a rent payment due under this Lease or for any other sums due and payable under the Lease (which failure is not cured prior to the expiration of the applicable cure period). The Letter of Credit shall permit partial draws and be fully transferable by Landlord without any transfer fees and shall irrevocably and unconditionally obligate the issuing bank to immediately reimburse Landlord for any amounts up to the then appropriate amount of said Letter of Credit upon issuing bank's receipt of a written statement from Landlord certifying the amount owing.

The other Letter of Credit shall be in the amount of Two Million Five Hundred Thousand Dollars (\$2,500,000) which may be drawn on at the discretion of Landlord. The draws will be to provide working capital to Tenant and will be based on a working capital needs budget provided by Tenant to Landlord. To request a draw (a "Draw Request"), Tenant shall supply Tenant's reasonable, detailed projections of Operating Expenses and Lease expenses or other debt expenses with respect to the Facility for the next operating month, together with appropriate evidence to support each expense item. Landlord shall disburse such draw within 7 days of receipt of such Draw Request. Thereafter, prior to submitting the next draw, Tenant shall provide cancelled checks, invoices and other evidence of payment of the expenses contained in the Draw Request. If such supporting documentation shows an amount less than the amount of such Draw Request, then such shortfall shall be deducted from the amount of the next Draw Request. The Letter of Credit shall permit partial draws and be fully transferable by Landlord without any transfer fees and shall irrevocably and unconditionally obligate the issuing bank to immediately reimburse Landlord for any amounts up to the then appropriate amount of said Letter of Credit upon issuing bank's receipt of a written statement from Landlord certifying the above requests from Tenant. Tenant may request that Landlord fully draw on such Letter of Credit in which case such funds shall be deposited in an account controlled by Landlord and subject to the draw

procedures provided above. Landlord shall relinquish control of such bank account upon Tenant's attainment of a 1:1 Lease Service Coverage Ratio for two consecutive quarters.

Both Letters of Credit shall also provide that they may be drawn on if not renewed on or before thirty (30) days from their respective expiry dates. Upon any such draw by Landlord upon such Letter of Credit due to Tenant's failure to renew same, the proceeds shall be held by Landlord in an interest-bearing escrow account controlled by Landlord and may be drawn upon at any time provided above. Notwithstanding the foregoing, however, Tenant shall be entitled to provide a replacement letter of credit at a subsequent date in the amount drawn upon as aforesaid, provided such replacement letter of credit is issued by a bank reasonably acceptable to Landlord and is in the amount of the prior letter of credit (less any amounts drawn upon by Landlord) and the form of the replacement letter of credit is otherwise consistent in all material respects with the original letter of credit. In such event, Tenant shall be entitled to obtain a refund of the monies in escrow (less any amounts drawn upon by the Landlord as aforesaid) upon Tenant's tendering the replacement letter of credit to the Landlord. Upon expiration of the Term of the Lease or upon a Permitted Assignment, Landlord shall surrender the outstanding Letters of Credit to Tenant.

#### **ARTICLE 13. RESTRICTION AGAINST OTHER LIENS**

13.1 No Liens on Property. Subject to the provisions of Article 14 relating to permitted contests, Tenant shall not directly or indirectly create or allow to remain and shall promptly discharge at its expense any lien, encumbrance, attachment, title retention agreement or claim upon any portion of the Property or on Tenant's accounts receivable or on Facility FF&E or any attachment, levy, claim or encumbrance in respect of Rent, excluding, however: (a) this Lease, (b) Permitted Encumbrances, if any, (c) liens for those taxes not yet due and payable which Tenant is not then currently required to pay hereunder, (d) liens for Impositions or for sums resulting from noncompliance with Legal Requirements so long as the same are not yet payable or are payable without the addition of any fine or penalty or are in the process of being contested as permitted by Article 14, (e) liens in favor of Landlord, (f) liens of mechanics, laborers, materialmen, suppliers or vendors for sums not yet due, (g) any Encumbrances which are the responsibility of Landlord pursuant to the provisions of Article 24 or which arise from the acts or omissions of Landlord and/or its officers, agents or employees, (h) purchase money liens on acquired Facility FF&E, and (i) that certain line of credit not to exceed Three Million Dollars (\$3,000,000) secured by accounts receivable of Tenant.

13.2 No Liens on Landlord's Interest. To the fullest extent permitted by applicable laws, in no event shall the interest of Landlord be subject to liens for improvements made by Tenant, whether under Article 11 or this Article 13. Tenant shall notify any and all contractors making any improvements, repairs or additions to any portion of the Property that any lien to which such contractor may be entitled pursuant to the laws of the State shall not extend to the interest of Landlord in the Property.

13.3 No Liens on Leasehold Interests. Tenant shall not allow, cause, permit or suffer, whether by operation of law or otherwise, any lien, mortgage, pledge, charge, security interest or other encumbrance upon any right, title, interest or estate of Tenant in this Lease.

#### ARTICLE 14. CONTESTS

Tenant, on its own or with the prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed) of Landlord on Landlord's behalf (or in Landlord's name), but at Tenant's sole cost and expense, may contest, by appropriate legal proceedings conducted in good faith and with due diligence, the amount, validity or application, in whole or in part, of any Imposition, Legal Requirement, Insurance Requirement, lien, attachment, levy, encumbrance, charge or claim not otherwise permitted by Article 13, provided that: (a) in the case of mechanics liens, Tenant shall remove any such lien from record title to any interest in the Property (including, without limitation, Tenant's interest under this Lease), at Tenant's sole cost and expense, within thirty (30) days after such lien arises, by depositing with the appropriate public authority a sum of money, or filing in such forum a bond executed as surety by a surety insurer licensed to do business in the State, in the amount and in the manner required by applicable law of the State and otherwise in a manner sufficient to effectively remove such lien from record title to the Property or to allow a title insurance company to affirmatively insure over same within thirty (30) days after completion of the action giving rise to such lien, (b) in case of an unpaid Imposition, lien (other than mechanics liens), attachment, levy, encumbrance, charge or claim, the commencement and continuation of such proceedings shall suspend the collection thereof from Landlord or Tenant and from the portion of the Property subject to such contest, (c) neither such Property nor any Rent therefrom nor any part thereof nor interest therein would be subject to any risk of being sold, forfeited, attached, foreclosed, or lost as a result of such non-payment or non-compliance, (d) in the case of a Legal Requirement, Landlord would not be in any danger of civil or criminal liability for failure to comply therewith pending the outcome of such proceedings, (e) in the event that any such contest shall involve a sum of money or potential loss in excess of One Hundred Thousand Dollars (\$100,000) then, in any such event, Tenant shall deliver to Landlord an Officer's Certificate to the effect set forth in clauses (b) and (c), to the extent applicable, (f) in the case of a Legal Requirement or an Imposition, lien (other than mechanics liens), encumbrance or charge, Tenant shall give such reasonable security as may be demanded by Landlord to insure ultimate payment of the same and to prevent any sale or forfeiture of the affected portion of the Property or the Rent by reason of such non-payment or non-compliance, (g) in the case of an Insurance Requirement, the coverage required by Article 15 shall be maintained, and (h) if such contest be finally resolved against Landlord or Tenant, Tenant shall, as Additional Charges due hereunder, promptly pay the amount required to be paid, together with all interest and penalties accrued thereon, or comply with the applicable Legal Requirement or Insurance Requirement.

Notwithstanding any express or implied provision of this Article 14 to the contrary, the provisions of this Article 14 shall not be construed to permit Tenant to contest the payment of Rent or any other sums payable by Tenant to Landlord hereunder. Landlord, at Tenant's expense, shall execute and deliver to Tenant such authorizations and other documents as may reasonably be required in any such contest and, if reasonably requested by Tenant or if Landlord so desires, Landlord shall join as a party therein. Tenant shall indemnify, defend and save Landlord harmless against any liability, cost or expense of any kind that may be imposed upon Landlord in connection with any such contest and any loss resulting therefrom.

## ARTICLE 15. INSURANCE

15.1 General Insurance Requirements. During the Term, Tenant shall at all times keep or cause to be kept the Property, and all other personal property located in or on the Property, whether owned by Landlord or Tenant insured with the kinds and amounts of insurance described below. Each element of the insurance described in this Article 15 shall be maintained with respect to the Property, and all personal property located at the Property, and operations thereon. This insurance shall be written by companies authorized to do insurance business in the State in which the Property is located. All liability and medical malpractice type policies (except workers compensation) must name Landlord as an "additional insured." All property, loss of rental and business interruption type policies shall also name Landlord as a named insured or as a loss payee to the extent of Landlord's insurable interest therein as respects property required to be insured by Tenant. Losses shall be adjusted with the named insured and loss payee, in their capacity as building owner, and Losses shall be payable to Landlord and/or Tenant as provided in Article 16.

In addition, the policies, as appropriate, shall name as an "additional insured" or "loss payee" the holder of any mortgage, deed of trust or other security agreement ("Property Mortgagee") securing any indebtedness or any other Encumbrance placed on the Property in accordance with the provisions of Article 24 ("Property Mortgage") by way of a standard form of mortgagee's loss payable endorsement; provided that Landlord delivers the name and address and insurance requirements of the Property Mortgagee to Tenant.

Evidence of insurance shall be deposited with Landlord and, if requested, with the Property Mortgagee(s). The policies shall insure against the following risks with respect to the Property:

(a) Commercial Property insurance covering the full replacement cost value of all insurable real and personal property at the Property, whether owned by Tenant or Landlord, and including but not limited to building or structures, improvements, machinery or equipment servicing buildings or structures, and all personal property, furniture, fixtures, machinery, equipment, stock and inventory owned, leased, rented, borrowed or in the care, custody or control of Tenant, or any of their agents, employees or subcontractors. Such coverage shall contain an agreed amount endorsement with no coinsurance. Coverage shall be written on an "All Risk" or "special perils" policy form basis subject to standard policy terms, conditions, limitations and exclusions. The term "replacement cost" shall mean the actual replacement cost at the time and place of loss of the insured property from time to time with new materials and workmanship of like kind and quality. If Tenant has made improvements to the Property, Landlord may at Tenant's expense have the replacement cost redetermined at any time after such improvements are made, regardless of when the replacement cost was last determined. The following coverage or perils shall be additionally included unless Landlord otherwise provides in writing:

(i) "All Risk" or "Special Perils" coverage, including flood, earth movement, mechanical breakdown, electrical injury, back-up of sewers or drains, explosion of boilers or pressure vessels, sinkhole and windstorm



(ii) Policy limit applicable to Property shall be the completed value of all insurable improvements

(iii) Loss valuation shall be the full cost to replace or repair, with no deduction for depreciation

(iv) Policy must name Landlord as owner as respects the Property

(v) Policy must permit or allow waiver of rights of subrogation in favor of Landlord

(vi) Fire resulting from any cause (except nuclear war) must be covered

(vii) Standard exclusion applicable to faulty design, specifications, materials, workmanship, etc. shall not apply to resultant damage to otherwise sound property

(viii) No specific exclusions relating to the peril of collapse

(ix) No specific exclusions relating to demolition of undamaged portions of the project, as may be required by building ordinance or laws

(x) No coinsurance requirements / provisions – policy must be “agreed amount”

(xi) Debris removal limit of insurance must be at least 25% of limit of insurance

(xii) Policy must cover temporary structures, false-work, etc (at least \$50,000)

(xiii) Policy must cover premises pollution clean-up and removal emanating from covered loss (at least \$50,000)

(xiv) Policy deductible shall not exceed 1% of project value (3% for named windstorm, earth movement or flood)

(xv) Tenant business interruption and landlord rent replacement coverages including extra expense with limits sufficient to provide for an indemnity period of not less than 12 months, or the actual time necessary to repair or rebuild the damaged Property, whichever is longer, plus an additional 12 month extended period of indemnity.

(b) Commercial General Liability Insurance, including follow form umbrella or excess liability insurance covering bodily injury (including sickness, disease or death) and third-party property damage including loss of use, on an occurrence coverage form, with coverage at least as broad as the Insurance Services Offices Commercial General Liability Policy form CG 0001, current edition, insuring Landlord and Tenant against

claims for personal injury, including bodily injury, death or property damage, arising from tenant's operations, or tenant's use, occupancy or maintenance of the leased Property, or from independent contractors.

Total primary commercial general liability and umbrella or excess liability limits shall be not less than the following:

| <u>Primary and Umbrella / Excess Liability Limits:</u>                                               | <u>Limits Required:</u>               |
|------------------------------------------------------------------------------------------------------|---------------------------------------|
| Primary CGL limit - each occurrence                                                                  | \$1,000,000                           |
| Primary CGL policy aggregate – applicable per location                                               | \$3,000,000                           |
| If allocated loss adjustment expenses (including defense costs) are “inside” policy limits           | Add \$1,000,000 to Primary & Umbrella |
| Claims-made coverage, must have 36 mo ERP option and cover “incidents reported” during policy period | Add \$1,000,000 to Primary & Umbrella |

Such insurance requirements may be satisfied by layering of commercial general liability, umbrella and excess liability policies. Other than standard exclusions applicable to pollution, asbestos, lead, mold, employment practices, ERISA and professional liability, there shall be no additional limitations or exclusions beyond those contained in the above referenced policy form.

(c) Professional Liability insurance on an occurrence coverage form in the amount of not less than One Million Dollars (\$1,000,000) per incident, with a policy aggregate of not less than Three Million Dollars (\$3,000,000).

(d) Automobile Liability insurance (including follow form umbrella liability insurance if necessary) covering liability arising from the use or operation of any auto. The coverage shall be at least as broad as the current edition of the Insurance Services Office Business Automobile Policy, CA 0001 ©.

(e) Statutory Workers' Compensation and Employer's Liability insurance (including follow form umbrella liability insurance (if necessary) as is required by any state or federal statute or law, or as may be available on a voluntary basis.

The Commercial Property Insurance described above must be in place on the earlier of the Completion or the date the project is no longer covered by the Builders Risk policy required in the Development Agreement. The Professional Liability Insurance described above shall be due on Completion.

Provided, however, any policies for which occurrence coverage is required may be written on a claims made basis if prepaid thirty-six (36) months “tail coverage” is also provided.

15.2 Waiver of Subrogation. Tenant hereby waives any and all rights of recovery against Landlord, its officers, agents and employees, for all injury, loss or damage, howsoever caused, to persons or property, including loss of use, to the extent such injury, loss or damage is covered or should be covered by required insurance or any other insurance maintained by Tenant, including sums within deductibles, retentions or self-insurance applicable thereto. This

waiver applies to all first party property, business interruption, equipment, vehicle and workers compensation claims (unless prohibited under applicable state statutes), as well as all third party liability claims. This waiver shall be in addition to, and not in limitation or derogation of, any other waiver or release contained in this Lease with respect to loss of, or damage to, property of the parties hereto. Landlord hereby agrees to a similar release with respect to any insurance maintained by Landlord. Inasmuch as the above mutual waivers preclude the assignment of any aforesaid claim by way of subrogation to an insurance company, Tenant and Landlord, if applicable, agree immediately to give to each insurance company providing coverage under this Lease, written notice of the terms of said mutual waivers, and to have said insurance policies properly endorsed, if necessary, to prevent the invalidation of said insurance company by reason of said waivers. Tenant shall indemnify Landlord against any loss or expense, including reasonable attorneys' fees, resulting from the failure to obtain such waiver from Tenant's insurer, if required.

15.3 Policy Requirements. All of the policies of insurance referred to in this Article 15 in excess of Tenant's retained exposure or self-insurance program shall be written in form reasonably satisfactory to Landlord and by insurance companies with a financial strength rating of "A" or better and a financial size of "VI" or higher in the most recent version of Best's Key Rating Guide.

All insurance requirements applicable to commercial general liability insurance, including but not limited to naming Landlord as an additional insured, responsibility for funding deductibles or retentions and waiver of subrogation shall apply as though the Tenant were fully insured. If Tenant obtains and maintains any policies of insurance or insurance trusts referred to in this Article 15 on a "claims-made" basis, Tenant shall provide continuous liability coverage for claims arising during the Term either by obtaining an endorsement providing for an extended reporting period reasonably acceptable to Landlord in the event such policy is canceled or not renewed for any reason whatsoever, or by obtaining either (a) "tail" insurance coverage converting the policies to "occurrence" basis policies providing coverage for a period of at least three (3) years beyond the expiration of the Term, or (b) retroactive coverage back to the commencement date (which date shall be at least three (3) years prior to the expiration of the Term) for the policy in effect prior to the expiration of the Term and maintaining such coverage for a period of at least three (3) years beyond the expiration of the Term.

All policies of insurance including permitted self-insured programs required herein shall apply as, and be endorsed, if necessary, to be primary to all insurance available to Landlord, with Landlord's insurance (if any) being excess, secondary and non-contributing. Tenant shall pay all of the premiums. Tenant shall furnish Landlord with one or more certificates of insurance evidencing all required coverage. The certificates are to be signed by a person authorized by the insurer(s) to bind coverage on their behalf. Copies of endorsements (a) adding Landlord as a named insured or loss payee under the commercial property coverage and business interruption coverage; (b) adding Landlord as an additional insured under liability coverage; and (c) permitting waiver of subrogation in favor of Landlord shall be attached to the certificates of insurance. Renewal certificates are to be provided to Landlord prior to the expiration of the required insurance policies. In the event any insurance coverage required by this Article 15 is not renewed and not replaced with other coverage as required by this Lease,

without any gap in coverage, Tenant shall give Landlord immediate written notice of such non-renewal of coverage.

Failure of Landlord to request such certificates or other evidence of Tenant's compliance with the insurance requirements, or failure of Landlord to identify deficiencies from evidence that is provided, shall in no way limit or relieve Tenant of its obligations to maintain such insurance. In addition to certificates of insurance, Landlord may request true and certified copies of the required insurance policies, including endorsements necessary to affect coverage required by these specifications. In the event of the failure of Tenant either to effect such insurance in the names herein called for or to pay the premiums therefor, or to deliver certificates thereof to Landlord, at the times required and if Tenant fails to cure such default within ten (10) days after receipt of written notice from Landlord, Landlord shall be entitled, but shall have no obligation, to effect such insurance and pay the premiums therefor, in which event the cost thereof, together with interest thereon at the Overdue Rate, shall be repayable to Landlord upon demand therefor.

Each insurer shall agree, by endorsement on the policy or policies issued by it, or by independent instrument furnished to Landlord, that Landlord will have no less than thirty (30) days' written notice before the policy or policies in question shall be materially altered, allowed to expire or canceled or non-renewed. Unless otherwise permitted hereunder each policy shall have a deductible or deductibles, if any, which are no greater than those normally maintained for similar operations in the State that are of similar size, character, financial condition, patient mix and number. Each party shall be responsible for funding deductibles or retentions under its own insurance policies. Tenant shall be responsible for funding all claims within self-insured retentions or programs or trusts, including claims applying to Landlord as an additional insured.

15.4 Blanket Policy. Notwithstanding anything to the contrary contained in this Article 15, Tenant's obligations to carry the insurance provided for herein may be brought within the coverage of a so-called blanket policy or policies of insurance carried and maintained by Tenant; provided, however, that the coverage afforded Landlord will not be reduced or diminished or otherwise be materially different from that which would exist under a separate policy meeting all other requirements hereof by reason of the use of the blanket policy, and provided further that the requirements of this Article 15 (including satisfaction of the Property Mortgagee's requirements and the approval of the Property Mortgagee, if applicable) are otherwise satisfied, and provided further that Tenant maintains specific allocations acceptable to Landlord. If the commercial general liability insurance required under Section 15.1(b) covers multiple locations and includes a general aggregate limit, the policy must be endorsed so that the general aggregate limit applies separately to each location.

## ARTICLE 16. CASUALTY

16.1 Handling of Insurance Proceeds. Except as otherwise provided herein, all proceeds from any policy of property damage insurance required by Article 15 of this Lease shall be paid to and held in trust by Landlord; provided, however, that if the originally named Landlord is not then the Landlord hereunder, such payments shall be paid to and held in trust by a reputable insurance trustee having substantial experience operating in such capacity, which trustee shall be mutually acceptable to Landlord and Tenant and shall hold and disburse such funds as provided

herein or in accordance with written instructions executed by both Landlord and Tenant; and provided, further, that in the event the amount of such proceeds is less than One Hundred Thousand Dollars (\$100,000) and there is no monetary Event of Default then outstanding under this Lease, such proceeds may be collected directly by Tenant from the insurance company to be applied by Tenant in the manner set forth in this Article 16. Provided that no Event of Default then exists, any such payments received by Landlord or the insurance trustee shall be made available by Landlord, or the trustee, for reconstruction or repair, as the case may be, of any damage to or destruction of all or any portion of the Property to which such proceeds relate, and shall be paid out by Landlord (or such insurance trustee) on a monthly basis in accordance with and subject to the provisions hereof for the cost of such reconstruction or repair, subject to reasonable and customary controls to ensure funds disbursed by Landlord (or such insurance trustee) are in fact used for such purpose. Tenant acknowledges that such insurance proceeds may not be used towards satisfaction of the minimum Capital Expenditures required pursuant to Section 8.1 of this Lease. Any unused portion shall be retained by Landlord upon completion of such repair and restoration to be held in an interest-bearing escrow account by Landlord and disbursed by Landlord to Tenant for further maintenance or repair of the Property as requested by Tenant and reasonably approved by Landlord. Provided, however, any such unused insurance proceeds which remain at the time this Lease expires or is terminated shall be refunded to Tenant upon Tenant's concurrent payment to Landlord of all amounts, if any, then due to Landlord from Tenant under other provisions of this Lease. All salvage resulting from any risk covered by insurance shall belong to Landlord.

16.2 Reconstruction in the Event of Damage or Destruction Covered by Insurance. Except as provided below, if during the Term, the Property is totally or partially destroyed by a risk covered by the insurance described in Article 15, Tenant shall use insurance proceeds hereunder to restore the Property to substantially the same condition as existed immediately before the damage or destruction, and this Lease shall continue in full force and effect, with the exception that Tenant shall not be required to satisfy the Capital Expenditures or minimum Financial Covenants obligations (other than the Liquidity Covenant) during the period of reconstruction. The insurance proceeds shall be paid as provided by Section 16.1 from time to time as necessary to pay for the costs of such restoration. If the cost of any such repair or restoration exceeds the amount of proceeds received by Landlord (or the insurance trustee described in Section 16.1) and paid over to Tenant from the insurance required under Article 15, Tenant shall contribute any and all excess amounts necessary to repair or restore the Property. In the event of a restoration as set forth in this Section 16.2, Base Rent shall be offset to the extent of any proceeds paid to Landlord under Tenant's rental interruption policy coverage.

16.3 Damage or Destruction Covered by Insurance in Final Twelve (12) Months. Notwithstanding the foregoing, in the event that either (i) more than seventy-five percent (75%) of the Property (by area or value) is substantially destroyed during the final twelve (12) months of the Term of this Lease as a result of a fully insured (subject to the deductible provision of the insurance coverage but including, but not limited to, business interruption coverage) casualty, or (ii) regardless of the extent of such damage or destruction, the repair or reconstruction of the affected Property is prohibited under applicable law, including, but not limited to, licensure law, zoning law and/or building code law, and such damage or destruction is the result of a fully insured (subject to the deductible provision of the insurance coverage but including, but not limited to, business interruption coverage) casualty, Tenant may elect, by giving written notice to

Landlord within thirty (30) days of the date of such casualty, to terminate this Lease effective as of the date such notice of termination is given. If the Lease is so terminated, all insurance proceeds including the business interruption coverage required in Section 15.1(a) above, shall be paid to Landlord up to the amount of the Rent owing under this Lease. In addition, Tenant shall pay to Landlord an amount equal to any deductible feature of the casualty insurance coverage. In such event, Base Rent shall be paid to the date of termination.

16.4 Reconstruction in the Event of Damage or Destruction Not Covered by Insurance. If during the Term, the Property is totally destroyed or materially damaged (i) from a risk not covered by insurance described in Article 15 or (ii) from a risk for which insurance coverage is voided due to any act or omission by Tenant, whether or not the Property is thereby rendered unsuitable for its Permitted Use(s), Tenant shall restore the Property to substantially the same condition as existed immediately prior to such damage or destruction, this Lease shall continue in full force and effect, and Tenant shall continue to pay Rent, in the manner and at the times herein specified, including the full amounts of Base Rent and Additional Charges.

16.5 Restoration of Capital Additions Paid by Tenant. Notwithstanding any provision contained herein to the contrary, all insurance proceeds payable solely by reason of any loss of or damage to any Capital Additions fully paid for by Tenant in their entirety shall be paid to Tenant and Tenant shall hold such insurance in trust to pay the cost of repairing or replacing such damaged Capital Additions.

16.6 No Abatement of Rent. In the event of any damage or destruction of the Property, this Lease shall remain in full force and effect (except as provided in Section 16.3) and Tenant's obligation to make rental payments and to pay all other charges required by this Lease shall not be abated by reason of any damage or destruction to the Property.

16.7 Waiver. Tenant hereby waives any rights at law or in equity and any statutory rights of termination which may arise by reason of any damage or destruction of the Property which Landlord is obligated to restore or may restore under any of the provisions of this Lease.

## ARTICLE 17. CONDEMNATION

17.1 Parties' Rights and Obligations. If during the Term there is any Taking of all or any part of the Property or of any interest in this Lease by Condemnation, the rights and obligations of the parties shall be determined by this Article 17.

17.2 Total Taking; Partial Taking Rendering Use Unsuitable. If title to the fee of the whole of the Property shall be the subject of any Condemnation by any Condemnor, this Lease shall cease and terminate as of the Date of Taking. If title to the fee of less than the whole of the Property shall be so taken or condemned, which nevertheless renders the Property unsuitable for its Permitted Use(s) (taking into account all relevant factors, including, but not limited to, the number of useable units and beds, the amount of square footage reasonably available for use by Tenant, and the type and amount of revenue lost), Tenant and Landlord each shall have the option by Notice to the other, to terminate this Lease as of the Date of Taking. In either of such events, all Rent paid or payable by Tenant hereunder shall be apportioned as of the date the Lease shall have been so terminated with respect to the Property.

17.3 Other Partial Taking/Election Not To Terminate. If title to the fee of less than the whole of the Property shall be the subject of a Taking or Condemnation, and the Property is still suitable for its then existing use, or if Tenant or Landlord shall be entitled, but shall not elect, to terminate this Lease with respect to the Property as provided in Section 17.2 hereof, Tenant at its own cost and expense shall with all reasonable diligence restore the untaken portion of the Property so that the Property shall constitute a complete architectural unit of the same general character and condition (as nearly as may be possible under the circumstances) as existing immediately prior to such Condemnation or Taking. Landlord shall contribute up to the entire amount of the Award to the cost of restoration. The proceeds of any Award shall be held and distributed in the same manner as provided by Section 16.1 for insurance proceeds. Any remaining balance of such proceeds after such restoration is completed shall be retained by or paid to Landlord.

17.4 Temporary Taking. If the whole or any part of any portion of the Property or of Tenant's interest under this Lease shall be the subject of a Taking or Condemnation by any Condemnor for its temporary use or occupancy, this Lease shall not terminate, and Tenant shall continue to pay, in the manner and at the times herein specified, the full amounts of Rent. Except to the extent Tenant may be prevented from so doing pursuant to the terms of any order for the benefit of the Condemnor, Tenant shall continue to perform and observe all of the other terms, covenants, conditions and obligations hereof on the part of the Tenant to be performed and observed as though such Taking or Condemnation had not occurred. Upon any such Taking or Condemnation described in this Section, the entire amount of any such Award made for such Taking or Condemnation allocable to the Term of this Lease, whether paid by way of damages, Rent or otherwise, shall be paid to Tenant. If any part of such Award is allocable for a period beyond the Term of this Lease, that part shall be paid to Landlord. Tenant covenants that upon the termination of any such period of temporary use or occupancy as set forth in this Section 17.4, Tenant will, at its sole cost and expense (subject to any contribution by Landlord as set forth in Section 17.3), restore the Property as nearly as may be reasonably possible to the condition in which the same was immediately prior to such Taking or Condemnation, unless such period of temporary use or occupancy shall extend beyond the expiration of the Term, in which case Tenant shall not be required to make such restoration but shall pay to Landlord from the Award received by Tenant (and not applied by Tenant to satisfy its Rent obligations during the period of such Taking), the costs of such restoration work.

17.5 Allocation of Award. In the event of a Taking, Landlord and Tenant shall reasonably cooperate with each other in order to maximize (and not reduce) the amount of the Award to the extent it does not reduce or impair the Award available to Landlord. Tenant shall have the right to seek damages or a separate condemnation award for Tenant's loss of any Capital Additions paid for by Tenant or any third party occupant of the Property, loss of its leasehold and business and relocation expenses and any such award that be the sole property of Tenant. Subject to the rights of the Property Mortgagee, the remainder of the Award shall be allocated entirely to Landlord.

## ARTICLE 18. DEFAULTS AND REMEDIES

18.1 Events of Default. Any one or more of the following events shall be deemed an "Event of Default" hereunder:

(a) Tenant shall fail to pay Rent payable by Tenant under this Lease as and when the same becomes due and payable and such failure is not cured within ten (10) days; The foregoing notwithstanding, upon failure of Tenant to pay the rent, Landlord will notify Guarantors and Guarantors shall have an additional ten (10) days to cure such Default.

(b) Tenant shall fail to observe or perform any other material term, covenant or condition of this Lease and such failure is not cured by Tenant within a period of thirty (30) days after Notice thereof from Landlord, unless such failure cannot with due diligence be cured within a period of thirty (30) days, in which case such failure shall not be deemed to continue if Tenant proceeds promptly and with due diligence to cure the failure and diligently completes the curing thereof;

(c) Any representation or warranty made by the Tenant in connection with this Lease, or in any report, certificate, financial statement or other instrument furnished in connection herewith or therewith, from time to time, under of this Lease or otherwise, shall prove to be false or misleading in any material respect;

(d) Tenant shall (i) admit in writing its inability to pay its debts generally as they become due (provided, the foregoing shall not apply to any statements made solely in connection with a negotiation of a trade payable in the ordinary course of business), (ii) file a petition in bankruptcy or a petition to take advantage of any insolvency law, (iii) make a general assignment for the benefit of its creditors, (iv) consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or (v) file a petition or answer seeking reorganization or arrangement under the Federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof;

(e) Tenant shall, on a petition in bankruptcy filed against it, be adjudicated bankrupt or have an order for relief thereunder entered against it or a court of competent jurisdiction shall enter an order or decree appointing, without the consent of Tenant; receiver of Tenant; or of the whole or substantially all of its property; or approving a petition filed against Tenant seeking reorganization or arrangement of Tenant under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; and such judgment, order or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(f) Tenant shall be liquidated or dissolved (except for an involuntary dissolution due to a failure to file an annual report or other filing with the Secretary of State or other officer or department of any municipality, county or state government so long as such failure is cured within 30 days of any notice thereof to Tenant, whether from the State or otherwise), or shall begin proceedings toward such liquidation or dissolution;



(g) The estate or interest of Tenant in the Property or any material part thereof shall be levied upon or attached in any proceeding and the same shall not be vacated or discharged within sixty (60) days after commencement thereof;

(h) Tenant voluntarily ceases operations on the Property, except as a result of damage, destruction or a partial, temporary or complete Condemnation and except as otherwise permitted by Section 9.4;

(i) The occurrence of an Event of Default under the Security Agreement, the Capital Improvement Reserve Agreement, the Development Agreement, any Guaranty Agreement or any other agreement executed by Tenant and Landlord in connection with this Lease; or

(j) If any Healthcare Permits or other Licenses necessary to Tenant's Permitted Use are revoked, terminated, expire or are no longer in good standing.

18.2 Damages. Upon the occurrence and during the continuance of any Event of Default, Landlord shall have the right: (a) to terminate this Lease and Tenant's right to possession of the Property by any lawful means, upon ten (10) business days' Notice of such termination (during which time Tenant shall have the opportunity to cure any such Event of Default) in which case, if Tenant shall fail to cure all Events of Default within the foregoing ten (10) day period, this Lease shall terminate and all of Tenant's rights hereunder shall cease and Tenant shall immediately surrender possession of the Property to Landlord and, in such event, Landlord shall be entitled to recover from Tenant all damages incurred by reason of such Event of Default determined in the manner set forth in Section 18.3, (b) to terminate Tenant's right to possession of the Property without thereby terminating this Lease and/or relet the same for Tenant's account, and (c) to enforce all of Landlord's rights and remedies under this Lease, including the right to recover the damages provided for in this Section. Neither the termination of this Lease or of Tenant's right to possession of the Property pursuant this Section 18.2 the repossession of the Property, the failure of Landlord, notwithstanding reasonable good faith efforts, to relet the same, nor the reletting of all or any portion of the Property, shall relieve Tenant of its liability and obligations hereunder, all of which shall survive any such termination, repossession or reletting until Landlord has collected from Tenant the damages due hereunder. Notwithstanding any provision contained herein to the contrary, Landlord shall mitigate its damages by making commercially reasonable efforts to relet the Facility to a hospital operator on reasonable terms.

18.3 Amount of Damages. Upon any such termination of this Lease or of Tenant's right of possession of the Property, Tenant shall, forthwith pay to Landlord the amount of Landlord's damages suffered by reason of such Event of Default in an amount equal to the sum of:

(a) the amount of all unpaid Rent due and payable to and including the date of such termination, repossession or reletting;

(b) the worth at the time of payment, of the amount by which the unpaid Rent which would have been earned after termination until the time of payment exceeds the amount of such rental loss that could have been reasonably avoided;

(c) the worth at the time of payment of the amount by which the unpaid Rent for the balance of the Term after the time of payment exceeds the amount of such rental loss that could be reasonably avoided; and

(d) any other amount reasonably necessary to compensate Landlord for the reasonable costs incurred in regaining possession and reletting the Property, including, but not limited to, brokerage fees and commissions, construction costs, rent concessions, and all legal costs and expenses.

(e) The "worth at the time of payment" of the amounts referred to in subparagraphs (b) and (c) above shall be computed by allowing interest at the Overdue Rate. The "worth at the time of payment" of the amount referred to in subparagraph (d) above shall be computed by discounting such amount at the discount rate of Federal Reserve Bank of Atlanta at the time of award plus 1%.

18.4 Application of Funds. Any payments normally made to Tenant hereunder which are made to and received by Landlord under any of the provisions of this Lease during the continuance of any Event of Default shall be applied to Tenant's obligations in the order which Landlord may determine or as may be prescribed by applicable laws.

18.5 Landlord's Right to Cure Tenant's Default. If an Event of Default occurs under this Lease and is not cured within the time provided under this Lease with respect to such Event of Default, Landlord, without waiving or releasing any obligation of Tenant, and without waiving any such Event of Default, may (but shall be under no obligation to) at any time thereafter cure such Event of Default for the account and at the expense of Tenant, and may, to the extent permitted by law, enter upon any portion of the Property for such purpose and take all such action thereon as, in Landlord's reasonable judgment, may be necessary or appropriate with respect thereto. No such entry by Landlord on any portion of the Property shall be deemed an eviction of Tenant. All reasonable sums so paid by Landlord and all costs and expenses (including, without limitation, reasonable attorneys' fees and expenses, in each case to the extent permitted by law) so reasonably incurred, together with a late charge thereon (to the extent permitted by law) at the Overdue Rate from the date on which such sums or expenses are paid or incurred by Landlord until paid, shall be paid by Tenant to Landlord on demand. The obligations of Tenant and rights of Landlord contained in this Article 18 shall survive the expiration or earlier termination of this Lease.

18.6 Waiver. If this Lease is terminated pursuant to the provisions of this Article 18, Tenant waives, to the extent permitted by applicable law, (a) any right of redemption, re-entry or repossession, (b) any right to trial by jury in the event of summary proceedings to enforce the remedies set forth in this Article 18, and (c) the benefit of any laws now or hereafter in force exempting Tenant's property from liability for rent or for debt.

## ARTICLE 19. CURE BY TENANT OF LANDLORD DEFAULTS

19.1 Landlord Default. Landlord shall be in default of its obligations under this Lease if Landlord shall fail to observe or perform any term, covenant or condition of this Lease on its part to be performed, and such failure shall continue for a period of thirty (30) days after Notice thereof from Tenant (or such shorter time as may be necessary in order to cure or correct any condition, the presence of which substantially or materially interferes with Tenant's conduct of its usual business for the Permitted Use(s) or to protect the health or welfare of any patient or other patient of the Property or to ensure the ongoing compliance of the Property with applicable law), unless such failure cannot be cured with due diligence within a period of thirty (30) days (or the above-described shorter time period), in which case such failure shall not be deemed to continue if Landlord, within such thirty (30) days (or the above-described shorter time period), promptly commences its attempt to cure the failure and diligently attempts to complete the curing thereof. The time within which Landlord shall be obligated to cure any such failure shall also be subject to extension of time due to the occurrence of any Unavoidable Delay. If Landlord fails to commence such cure as provided herein, Tenant may cure such default, and so long as Tenant continues to pay Rent, Tenant shall have the right (subject to Section 7.1), as Tenant's sole remedy, by separate and independent action to pursue any claim it may have against Landlord for monetary damages caused by Landlord's failure to cure such default.

19.2 Mortgagee Cure. Should Landlord fail to observe or perform any of the covenants or conditions contained in this Lease, before taking any action, Tenant shall comply with the requirements of any subordination agreement to which it may then be a party with respect to the granting of notice and an opportunity to cure to any such Landlord default. All payments made, and all acts performed by such lenders in order to cure shall be effective to prevent a forfeiture of the rights of Landlord under this Lease and a termination of this Lease as if the payments and acts were performed by Landlord instead of by the lenders.

## ARTICLE 20. HOLDING OVER

If Tenant for any reason remains in possession of any portion of the Property after the expiration of the Term or earlier termination of the Term, such possession shall be a tenancy at sufferance during which time Tenant shall pay to Landlord as rental each month (i) one hundred fifty percent (150%) of the monthly Base Rent for the Property payable with respect to the last 12 calendar months of the Term just expired, and (ii) all Additional Charges accruing during the month with respect to which such payment relates, and (iii) all other sums, if any, payable by Tenant pursuant to the provisions of this Lease with respect to the Property. During such period of month-to-month tenancy at sufferance, Tenant shall be obligated to perform and observe all of the terms, covenants and conditions of this Lease. Nothing contained herein shall constitute the consent, express or implied, of Landlord to the holding over of Tenant after the expiration or earlier termination of this Lease.

## ARTICLE 21. LIABILITY OF PARTIES

21.1 Indemnification by Tenant. Notwithstanding the existence of any insurance provided for in Article 15, and notwithstanding the policy limits of any such insurance, Tenant shall indemnify, defend, protect, save and hold Landlord (and its owners, directors, officers,

managers, employees, agents, Affiliates, successors and assigns and any successor person who is the owner of the Property or who holds the licenses to operate the Property) harmless from and against any and all liabilities, losses, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) (collectively a "Claim") imposed upon, incurred by or asserted against Landlord arising out of, connected with or incidental to the following and arising from events discovered or occurring during the Term:

- (a) Any Claim arising from the construction of the Facility;
- (b) Any Claim arising from any Hazardous Substance located in, on or under the Property;
- (c) any accident, injury to or death of persons, or loss of or damage to property, occurring on or about the Property including, without limitation, any claims of malpractice, except for any such accident, injury, death, loss or damage proximately caused by Landlord's gross negligence or willful misconduct and not resulting from Tenant's failure to perform and comply with the terms, covenants, conditions and provisions of this Lease;
- (d) any past, present or future use, misuse, non-use, condition, management, maintenance or repair by Tenant or its agents of the Property, and any litigation, proceeding or claim by governmental entities or other third parties relating thereto to which Landlord is made a party;
- (e) any Impositions which are the obligations of Tenant to pay pursuant to the applicable provisions of this Lease if the same are not paid when due or within any cure period provided for herein;
- (f) any failure on the part of Tenant to perform or comply with any of the terms of this Lease when due or within any cure period provided for in this Lease;
- (g) the non-performance of any of the terms and provisions of any and all existing and future subleases of the Property to be performed by Tenant thereunder;
- (h) any claims by state or federal governmental agencies for repayment of claims for reimbursement of costs incurred by Tenant in providing care or services to patients under government supported healthcare or government supported residential programs; and
- (i) any failure of Tenant or any subtenant to comply with any Legal Requirements.

Any amounts payable by Tenant under this Section shall be paid within ten (10) days after Tenant's liability therefor is determined by litigation or otherwise. If such amounts are not timely paid, they shall bear a late charge at the Overdue Rate from the date of such determination to the date paid. Tenant, at its expense, shall contest, resist and defend any such claim, action or proceeding asserted or instituted against Landlord, or may, with Landlord's prior written

consent, compromise or otherwise dispose of the same as Tenant sees fit. If Tenant shall have fully paid to Landlord any and all amounts due under this Section 21.1, Tenant shall be entitled to receive any insurance proceeds relating to such indemnified matter. Nothing herein shall be construed as indemnifying Landlord against its own gross negligence or willful misconduct.

Notwithstanding the foregoing, the indemnity obligation of Tenant set forth in this Section 21.1 shall be offset by the amount of insurance proceeds received by Landlord related to such Claim.

21.2 Indemnification by Landlord. Landlord shall indemnify, defend, save and hold Tenant (and its owners, directors, officers, managers, employees, agents, Affiliates, successors and assigns) harmless from and against any and all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) imposed upon, incurred by or asserted against Tenant arising out of, connected with or incidental to the gross negligence or willful misconduct of Landlord; provided, however, that Tenant's right to indemnification as provided herein shall be subject to the limitation set forth in Article 25.

21.3 Continuing Liability. Tenant's and Landlord's liability hereunder shall survive any termination of this Lease or Tenant's right to possession of the Property for a period of one (1) year following the expiration or termination of this Lease with the exception of liabilities related to medical malpractice or breaches of environmental covenants or inaccuracies of any environmental representations or warranties, all of which excepted matters shall survive indefinitely.

## **ARTICLE 22. ASSIGNMENT AND SUBLETTING/LIENS**

22.1 Assignment. Landlord's prior written consent, which shall be at its sole discretion, shall be required for an assignment or transfer of any of Tenant's right, title and interest in and to this Lease. Provided however, an assignment or transfer to an entity (i) with a net worth of \$50 Million or more pursuant to audited financial statements or (ii) with a net worth of \$25 Million or more pursuant to audited financial statements that also provides cash collateral or a letter of credit equal to the amount of two years of Rent for such period, shall not require the consent of Landlord hereunder. For purposes of this Lease, any change in the Control of Tenant by stock transfers, transfers of partnership interests, transfers of membership interests or other means of transferring control of Tenant, or a merger of Tenant with any other entity, or the transfer or conveyance of a substantial portion of the assets of Tenant, shall constitute an assignment hereunder. An assignment or transfer permitted hereunder is hereinafter referred to as a "Permitted Assignment." An assignment which does not receive Landlord's consent shall be an Event of Default hereunder. In the event of a Permitted Assignment, any Lease Guarantor's obligations and covenants under the Lease Guaranties shall be terminated.

22.2 Subletting. Tenant shall not allow, cause, permit or suffer any portion of the Property to be leased, subleased (other than subleases to persons providing ancillary services to the Facility) or licensed to, or used or occupied (other than patients of the Facility and persons permitted temporarily to enter upon the Property from time to time solely for the purpose of rendering services or providing products to such patients) by any other person or party. Landlord

may, in Landlord's sole discretion, grant, withhold or place conditions on such consent. The form of sublease shall be approved by Landlord.

22.3 Attornment. Tenant shall insert in any sublease executed by Tenant, provisions reasonably satisfactory to Landlord which provide for the benefit of Landlord that (a) such sublease is subject and subordinate to all of the terms and provisions of this Lease (b) in the event this Lease shall terminate before the expiration of such sublease, the sublessee thereunder will attorn to Landlord and waive any right the sublessee may have to terminate the sublease or surrender possession under such sublease, and (c) in the event the sublessee receives a notice from Landlord or Landlord's assignees, if any, stating that an Event of Default has occurred under this Lease, the sublessee shall thereafter be obligated to pay all rentals accruing under such sublease directly to the party giving such notice, or as such party may otherwise direct. All rentals received from the sublessee by Landlord or Landlord's assignees, if any, as the case may be, shall be credited against the amounts owed to Landlord under this Lease.

22.4 Sublease Conditions. Notwithstanding anything contained in this Lease to the contrary, upon the expiration or termination of this Lease, Landlord shall succeed to all of the rights and obligations contained in the subleases subject to and with the benefit of the Sublease Conditions (as that term is hereinafter defined). As used herein, the term "Sublease Conditions" shall mean the following:

- (a) Landlord shall not be liable for any act or omission of any prior landlord;
- (b) Landlord shall not be bound by any rent or additional rent which any subtenant may have prepaid more than one (1) month in advance under the sublease;
- (c) Landlord shall not be subject to any offsets, claims or defenses which any subtenant might have against any prior landlord under the sublease;
- (d) Landlord shall not be bound by any amendment to the sublease entered into without Landlord's consent which would have a material adverse effect on Landlord's rights, or by any agreement in the sublease to construct or complete any subtenant premises or any improvement thereof for any subtenant, or to indemnify any subtenant for any loss resulting from a failure to timely deliver any subtenant premises; and
- (e) Landlord shall not be personally liable for any term, covenant, provision, liability or obligation under the sublease with the recourse of each subtenant being limited to Landlord's interest in the Property (with such non-recourse provision to apply to all partners, directors, officers, members, shareholders, trustees and other owners).

22.5 Assignment of Sublease. Tenant agrees to assign and transfer to Landlord all of the subleases in effect at the time of the expiration or termination of this Lease (such assignment and transfer not to be effective until the expiration or termination of this Lease). Tenant shall execute, acknowledge and deliver to Landlord such further reasonable assignments and transfers as may be necessary to vest in Landlord the then existing subleases.

## ARTICLE 23. INFORMATION FROM TENANT

23.1 Tenant Estoppel Certificates. At any time and from time to time, upon not less than twenty (20) days' Notice by Landlord which notice shall make specific reference to this Section 23.1, Tenant shall furnish to Landlord or to Landlord's lenders and to any persons intending to purchase the Property an estoppel certificate (which shall be an Officer's Certificate) certifying that this Lease is unmodified and in full force and effect (or that this Lease is in full force and effect as modified and setting forth the modifications); the date to which the Rent has been paid; whether, to Tenant's actual knowledge and belief, there exists any Event of Default or any situation which, with the giving of notice, passage of time, or both, would constitute an Event of Default hereunder, whether to Tenant's actual knowledge, contends that Landlord is in default hereunder or that there exists any situation which, with the giving of notice, passage of time, or both, would constitute an Event of Default by Landlord hereunder, and if Tenant so contends, the basis (in general detail) for such contention, the date upon which the Term terminates; and such other information as Landlord reasonably may request including, but not limited to, matters relating to operations of the Property. The failure by Tenant to deliver such estoppel certificate to Landlord within twenty (20) days of Landlord's request therefor shall be conclusively deemed to be Tenant's certification (i) that this Lease is in full force and effect, without modification except as represented by Landlord; (ii) that there are no uncured defaults in Landlord's performance hereunder, (iii) that not more than one month's Rent has been paid in advance; and (iv) that all reports previously given to Landlord are true and correct. Any such certificate furnished pursuant to this Section 23.1 shall be addressed to Landlord and to any prospective purchaser of the Property, the Property Mortgagee and/or Landlord Lender as Landlord may request, and may be relied upon by the parties to whom such certificate is addressed.

23.2 Landlord Estoppel Certificates. At any time and from time to time, upon not less than twenty (20) days' Notice by Tenant, which notice shall make specific reference to this Section 23.2, Landlord shall furnish to Tenant an estoppel certificate (which shall be an Officer's Certificate) certifying that this Lease is unmodified and in full force and effect (or that this Lease is in full force and effect as modified and setting forth the modifications), the date to which the Base Rent has been paid, and whether to Landlord's actual knowledge and belief there exists any Event of Default or any situation which with the giving of notice, passage of time, or both, would constitute an Event of Default hereunder, and if Landlord so contends, the basis for such contention, the date upon which the Term terminates; and such other information as Tenant reasonably may request. In the event Landlord should fail to provide an estoppel certificate within the time allowed after the Tenant's request therefore duly made, such failure to respond shall be conclusively deemed to constitute Landlord's certification that (i) this Lease is in full force and effect, without modification except as represented by Tenant in its request to Landlord, (ii) that there are no uncured defaults in Tenant's performance and (iii) that not more than one month's rent has been paid in advance. Any such certificate may be relied upon by Tenant and any assignee (so long as such assignee is approved and consented to by Landlord in accordance with Article 22) or lender of Tenant to whom such certificate is addressed.

23.3 Annual Financials of Tenant. As soon as available and in any event within one hundred twenty (120) days after the end of each Fiscal Year of Tenant, Tenant shall furnish to Landlord a copy of an annual audit for such Fiscal Year of Tenant, including therein the balance

sheet of Tenant as of the end of such Fiscal Year and statement of earnings and statements of cash flow of Tenant for such Fiscal Year, in each case certified in a manner reasonably acceptable to Landlord by independent certified public accountants of recognized standing in any State selected by Tenant and reasonably acceptable to Landlord. Provided however, audited consolidated financials of Polaris shall be acceptable as a replacement for the requirement of Tenant audited financials hereunder so long as such financials include supporting schedules setting forth the operations of Tenant.

23.4 Quarterly Financials of Tenant. As soon as available and in any event within forty-five (45) days of the end of each of the calendar quarters (including the fourth quarter) of each Fiscal Year of Tenant, Tenant shall furnish to Landlord balance sheets of Tenant as of the end of such quarter and statements of earnings and statements of cash flow of Tenant for such quarter and for the Fiscal Year to date setting forth in comparative form and details the figures for the corresponding period of the previous Fiscal Year, certified by an officer of Tenant, and a Certificate of Compliance in the form attached hereto as Exhibit K and signed by an officer of Tenant (the "Quarterly Compliance Certificate"). The Quarterly Compliance Certificate shall provide evidence of compliance with the financial ratios and such backup documentation as reasonably required by Landlord.

23.5 Monthly Financial Statements and Other Property Information of Tenant. As soon as available after the end of each month but in any event no later than thirty (30) days after the end of the preceding month, Tenant shall furnish to Landlord: (i) an itemized operating statement for the Property by month and year to date showing all revenues and operating costs of the Property, (ii) a schedule for the Property, in form reasonably satisfactory to the Landlord but excluding such information as Tenant reasonably determines is required to be deleted in order for Tenant and Landlord to comply with their obligations under Section 23.14 of this Lease, setting forth information regarding patient mix, patient census, and patient days and (iii) a monthly occupancy summary showing percentage occupancy and payor source.

23.6 Capital Expenditure Compliance Certificate. Within ninety-five (95) days after the end of each Calendar Year, Tenant shall furnish to Landlord a certificate of compliance certified by an officer of Tenant stating with respect to the Property (i) the amount of Capital Expenditures made at the Property during the prior year, (ii) whether the Targeted Expenditure Amount has been met for the prior year, and (iii) stating the amount, if any, to be deposited into the Cap Ex Account.. Tenant shall provide to Landlord copies of invoices, cancelled checks or other reasonable supporting documentation for the Capital Expenditures and reflected in each such annual certificate of compliance.

23.7 Event of Default Notices. Promptly after Tenant obtains actual knowledge thereof, Tenant shall furnish to Landlord notice of the occurrence of any Event of Default, or event which, after notice or lapse of time (or both), would constitute an Event of Default, together with a statement of an officer of Tenant setting forth details of such Event of Default or event and the action that Tenant has taken and proposes to take with respect thereto.

23.8 Notice to Authorities. Concurrently with any material notice from Tenant to any Authority, Tenant shall furnish to Landlord copies of such notice.



23.9 Notice of Violation. Promptly upon Tenant's receipt of a Citation or any material notice from, or the taking of any other action by, any Authority with respect to a claimed violation of a Legal Requirement, Tenant shall furnish to Landlord a reasonably detailed statement by Tenant specifying the notice given or other action taken by such Authority, the nature of the claimed violation and what action Tenant is taking or proposes to take with respect thereto.

23.10 Malpractice Matters. Promptly upon Tenant's receipt, Tenant shall furnish to Landlord written notice of the filing of any medical malpractice action against Tenant with respect to the Property seeking damages in excess of One Hundred Thousand Dollars (\$100,000).

23.11 Guarantors' Reports. Guarantor shall furnish a current financial statement and tax returns of Guarantors, as required by any Lease Guaranty.

23.12 Other Information. Tenant shall furnish such other information about Tenant, and the operations at the Property as Landlord, any person holding a mortgage on the Property or any successor owner of the Property may reasonably request from time to time.

23.13 Licensing Information. Tenant shall promptly furnish to Landlord for the Property upon request complete copies of all Tenant's cost reports, if any, and all surveys, examinations, inspections, compliance certificates and similar reports of any kind issued to Tenant by any governmental agencies or authorities having jurisdiction over the licensing of the operation of the Property which are material to the Property or its ownership or operation.

23.14 Confidentiality of Protected Health Information. For purposes of this Section of this Lease, "protected health information", or PHI, shall have the meaning defined by the Standards for Privacy of Individually Identifiable Health Information, 45 C.F.R. Part 160 and Subparts A and E of Part 164 (the "Privacy Standards"), as promulgated by the Department of Health and Human Services ("HHS") pursuant to the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). Tenant agrees to reasonably safeguard PHI, if any, from any intentional or unintentional disclosure in violation of the Privacy Standards by implementing appropriate administrative, technical and physical safeguards to protect the privacy of PHI. Tenant further agrees to implement as required by law appropriate administrative, technical and physical safeguards to limit incidental disclosures of PHI, if any, including disclosures to Landlord, its subcontractors and agents. The parties agree that neither the Landlord nor its contractors, subcontractors or agents shall need access to, nor shall they use or disclose, any PHI of Tenant. However, in the event PHI is disclosed by Tenant or its agents to Landlord, its contractors, subcontractors or agents, regardless as to whether the disclosure is inadvertent or otherwise, Landlord agrees to take reasonable steps to maintain, and to require its contractors, subcontractors and agents to maintain, the privacy and confidentiality of such PHI. The parties agree that the foregoing does not create, and is not intended to create, a "business associate" relationship between the parties as that term is defined by the Privacy Standards.

## ARTICLE 24. PROPERTY MORTGAGES

Without the consent of Tenant, Landlord may, subject to the terms and conditions set forth below in this Article 24, from time to time, directly or indirectly, create or otherwise cause to exist upon the Property (or any portion thereof or interest therein) any mortgage, lien, deed of trust or other like encumbrance ("Encumbrance"), whether to secure any borrowing or other means of financing or refinancing. Any such Encumbrance (i) shall contain the right to prepay (whether or not subject to a prepayment penalty), (ii) shall provide that it is subject to the rights of Tenant under this Lease (including Tenant's rights to insurance proceeds, condemnation awards, letters of credit, escrows, option to purchase pursuant to Article 27 and the Property as provided in this Lease) and (iii) shall not increase the obligations imposed on, or reduce the rights granted to, Tenant under this Lease; provided, however, that Tenant agrees that, subject to the foregoing provisions, its interest under this Lease is subordinate to any mortgage that may now or hereafter from time to time be recorded on the Property, and to any and all advances made or to be made thereunder, and to renewals, replacements and extensions thereof. Notwithstanding the foregoing, any such subordination, however, shall be subject to the condition precedent that the mortgagee under such mortgage enter into a written non-disturbance and attornment agreement with Tenant, in form and content reasonably satisfactory to such lender (but consistent with the foregoing provisions), whereunder it is agreed that in the event of a deed in lieu of foreclosure, sale or foreclosure under such mortgage or deed of trust, the purchaser of the Property (including the mortgagee or beneficiary under such mortgage), shall acquire or hold the Property subject to this Lease and Tenant's rights hereunder so long as no Event of Default exists.

Tenant hereby agrees to recognize such purchaser as the landlord under this Lease and agrees to attorn to such purchaser and, if instructed to do so by such purchaser, to make rental payments directly to it. Upon such attornment, this Lease shall become a direct lease between Tenant and such Purchaser. Such subordination agreement may also include an acknowledgment by Tenant that any purported cancellation of this Lease, except by its terms, or any sublease, reduction in its effective rate of rent, shortening of its term or extension of its term at a reduced effective rate of rent, shall not be binding upon any Encumbrancer (as hereinafter defined) or any other person, firm or corporation acquiring the Property at any sale or other proceedings, or pursuant to the exercise of any rights, powers or remedies under any Encumbrance, without such Encumbrancer's prior written consent.

Notwithstanding anything contained herein to the contrary, each Encumbrance shall contain a provision which obligates the mortgagee or other applicable lienholder (the "Encumbrancer") to release and discharge such Encumbrance on the Property upon the payment to the Encumbrancer of the net sales proceeds to be paid by the Tenant under Article 27 hereof (or such lesser amount as is payable under the Encumbrance) in order that Tenant may acquire fee simple record title pursuant to Article 27 free and clear of all Encumbrances and as otherwise provided in Article 27.

## ARTICLE 25. LIMITATION OF LANDLORD'S LIABILITY

Tenant specifically agrees that neither Landlord, nor any officer, shareholder, employee or agent of Landlord, shall be held to any personal liability, jointly or severally, for any

obligation of, or claims against Landlord. Notwithstanding any other provisions of this Lease which may be to the contrary, Tenant agrees to look solely to Landlord's equity interest in the Property for recovery of any judgment under this Lease. The provisions of this Section shall not limit any right that Tenant might otherwise have under this Lease for specific performance or other injunctive relief against Landlord. In no event shall Landlord (original or successor) or any Affiliate of Landlord be required to respond in monetary damages from Landlord's assets other than Landlord's equity interest in any portion of the Property. Furthermore, except as otherwise expressly provided herein, in no event shall Landlord or any Affiliate of Landlord (original or successor) ever be liable to Tenant for any indirect or consequential damages suffered by Tenant from whatever cause.

#### **ARTICLE 26. NONCOMPETITION PROVISIONS.**

Tenant covenants and agrees that, at all times during the Term of this Lease neither Tenant nor any Affiliate of Tenant, will directly or indirectly, own, manage, lease or operate a healthcare property providing inpatient or outpatient services or other similar services as provided at the Facility within a fifteen (15) mile radius of the Property that competes or would reasonably be expected to compete with the Property. In addition for a period of one year after expiration of the Term, neither Tenant nor any Affiliate of Tenant, will commence construction of a property within the respective protective radius stated above, which newly developed property would compete or be reasonably expected to compete with the Property. The provisions of this Article 26 shall survive the expiration or termination of this Lease. Tenant understands and acknowledges that the violation of this covenant not to compete by Tenant, or any Affiliate of Tenant, would cause irreparable harm to Landlord and Landlord would be entitled to seek an injunction from any court of competent jurisdiction enjoining and restraining Tenant, or any Affiliate of Tenant, from any act prohibited by this Article 26. Tenant and Landlord recognize and acknowledge that the area and time limitations contained in this Article 26 are reasonable. In addition, Tenant and Landlord recognize and acknowledge that the area and time limitations are properly required for the protection of the business interests of Landlord due to the status and reputation of Tenant in the industry. The parties agree that nothing in this Article 26 shall be construed as prohibiting Landlord from pursuing any other remedies available to it for any breach or threatened breach of this covenant not to compete, including the recovery of damages from Tenant or any other person or entity acting in concert with Tenant. Tenant agrees that, in the event that Tenant, or any subsidiary thereof, breaches this covenant not to compete, Tenant will pay reasonable attorney's fees and expenses incurred by Landlord in enforcing this covenant not to compete.

. It is further agreed that if at any time it shall be determined that this covenant not to compete is unreasonable as to time or area, or both, by any court of competent jurisdiction, Landlord shall be entitled to enforce this covenant for such period of time and within such area as such court may determine to be reasonable.

#### **ARTICLE 27. PURCHASE OPTION**

27.1 Purchase Option. Landlord hereby grants to Tenant the one-time right and option to purchase the Property (the "Purchase Option") at any time during the period commencing on the first day of the seventh (7<sup>th</sup>) Lease Year and expiring on the last day of the ninth (9<sup>th</sup>) Lease

Year (the applicable option periods are referred to herein as the "Option Period") on the terms set forth herein.

(a) There shall be no Default that remain uncured, or Events of Defaults hereunder.

(b) Tenant may exercise the Option by giving Landlord Notice thereof at any time during the Option Period, and the closing of the sale and purchase shall occur on the date which is six (6) months after Tenant gives such Notice of the exercise of the Purchase Option, unless such closing day is a Saturday, Sunday or legal holiday, in which event the closing shall be on the next business day thereafter ("Closing Date").

(c) Tenant shall have the right to assign this Purchase Option upon the assignment of this Lease permitted by the terms hereof or to any Affiliate of Tenant.

(d) In the event Tenant gives notice of its election to purchase the Property but fails to close the purchase of the Property within the time allowed herein, this Lease shall remain in full force and effect (without the Purchase Option) and Tenant shall be liable for all of Landlord's documented costs and expenses relating to the Tenant's election to exercise the Purchase Option, including, but not limited to, the fees and expenses of the Landlord's appraiser and reasonable attorney's fees.

(e) The Purchase Price shall be determined by taking the Base Rent for the next twelve months (including any escalations that occur during such period) and dividing it by a capitalization rate of nine percent (9%).

27.2 Closing. The applicable Purchase Price shall be paid in full at the closing although Tenant may, at its option, use all or any portion of the Purchase Price as may be necessary to discharge any mortgages or other monetary liens or encumbrances affecting Landlord's interest in the Property. In the event that the aggregate amount required to pay and discharge all such mortgages, liens and encumbrances exceeds the Purchase Price, Landlord shall pay or reimburse Purchaser all such additional sums and obtain full release and discharge of such deeds of trust, mortgages, liens and encumbrances.

(a) At the closing, Landlord shall convey to Tenant or its nominee by special warranty deed, bill of sale and assignment, all of Landlord's right, title and interest to the Property (including, without limitation, all Licenses, to the extent assignable), but free and clear of all mortgages, deeds of trust, liens and other encumbrances whatsoever, excepting real estate taxes not yet due and payable, easements, restrictive covenants and other matters encumbering the Property on the Commencement Date or otherwise approved by Tenant. Upon such conveyance neither party shall have any further rights or obligations hereunder except those expressly stated to survive termination. Tenant shall, however, cure any monetary Event of Default as of the closing date.

(b) The closing costs and expenses in connection with the transfer of the Property to Tenant or its nominee, including, but not limited to, real property conveyance or transfer fees or deed stamps, title search fees, title insurance commitment fees, and title insurance premiums, survey fees, environmental assessment fees, recording fees and

the fees of any escrow agent shall be paid by Tenant. Tenant shall be solely responsible for Tenant's and Landlord's respective reasonable legal fees incurred in connection with the transfer of the Property to Tenant. Notwithstanding the foregoing provision relating to legal fees, Landlord shall be solely responsible for Landlord's legal fees incurred in clearing any encumbrances or exceptions to title to any portion of the Property which title matter Landlord is required to have cleared or removed pursuant to this Section.

(c) If the Property is damaged to such an extent that Tenant exercises its right to terminate under Article 16, the Tenant may terminate its obligation to purchase the Property if the Tenant has exercised the Purchase Option. The Tenant shall be entitled to all insurance proceeds, if the Tenant purchases the Property. If the Tenant elects not to purchase the Property, the applicable Lease provisions shall apply.

(d) If Landlord shall be unable to give title and make conveyance as required hereunder for any reason beyond Landlord's control (after Landlord uses reasonable efforts to perform) and without such inability being a default by Landlord, the obligations of both parties under this Purchase Option shall terminate and the remaining terms and conditions of this Lease shall continue in full force and effect; provided, however, that Tenant may, at Tenant's election, accept such title as Landlord is able to convey, without warranty as to known defects and without reduction of the Purchase Price.

(e) In the event any portion of the Property is taken by eminent domain after the Tenant exercises the Purchase Option, the Tenant shall have the option to either (i) terminate the exercise of the Purchase Option and the provisions of this Article 27 shall become null and void or (ii) consummate the purchase of the Property and pay the full Purchase Price and receive an assignment and transfer of all condemnation awards paid or payable with respect to such taking. In addition, if the taking occurs prior to Tenant's exercise of the Purchase Option, Tenant may exercise the Purchase Option and the foregoing provisions shall apply.

(f) In the event of a default by either party hereunder, the other party shall have the right to seek specific performance.

(g) Landlord and Tenant agree that there shall be no adjustment for real estate taxes or assessments constituting a lien on the Property. Rent and other amounts due and payable hereunder shall be prorated up to the closing date. The Tenant shall pay the cost of the documentary tax stamps to record the deed and all other adjustments shall be made in accordance with Tennessee law and custom.

(h) To enable Landlord to make conveyance as herein provided, Landlord may, on the closing date, use the purchase money or any portion thereof to clear the title of any or all encumbrances or interests.

(i) Upon the recording of the aforesaid deed, all of the Landlord's right, title and interest in this Lease will be deemed to have been conveyed and transferred to the grantee in the deed.

(j) The Tenant acknowledges that Landlord may structure the disposition of the Property as a like kind exchange under Section 1031 (a "1031 Exchange") of the Internal Revenue Code of 1986, as amended (the "Code"), at the Landlord's sole cost and expense. The Tenant has agreed to cooperate in all reasonable respects with Landlord to effectuate such 1031 Exchange, and Landlord acknowledges and agrees that:

(i) The Closing shall not be extended or delayed by reason of such 1031 Exchange, unless the Tenant has breached its obligations to Landlord under this subsection;

(ii) The Tenant shall not be required to incur any additional cost or expense as a result of such 1031 Exchange. Landlord covenants and agrees that it shall, on demand, reimburse the Tenant for any additional cost or expense (including, but not limited to, reasonable attorneys' fees) incurred by the Tenant which is directly attributable to the 1031 Exchange; and

(iii) Tenant shall incur no personal liability under any document or agreement required in connection with such 1031 Exchange, and the Tenant shall not be required to execute any such document or agreement that does not expressly exculpate and release the Tenant, its successors, assigns, affiliates, officers, employees, agents and representatives from any liability or obligation arising out of, or in connection with, the 1031 Exchange.

## **ARTICLE 28. REPRESENTATIONS AND WARRANTIES**

28.1 Representations and Warranties of Landlord. Landlord hereby warrants and represents to Tenant that as of the date hereof:

(a) Landlord has full right, power and capacity to enter into this Lease and to carry out the transactions contemplated hereby, and the execution and delivery of this Lease and the consummation of the transactions contemplated hereby has not resulted, and will not result, (with or without the lapse of time, the giving of notice, or both) in a conflict with or constitute a default under any agreement, contract or other instrument to which Landlord is a party.

(b) Landlord is a duly organized and validly existing limited liability company under the laws of the State of Delaware; the execution and delivery of this Lease and the consummation of the transactions contemplated hereby has been authorized by all necessary action and has not resulted and will not result (with or without the lapse of time, the giving of notice or both) in any breach of, or in a conflict with any of the terms or provisions of the limited liability company agreement or other organizational documents of Landlord; and this Lease is binding and enforceable against Landlord in accordance with its terms subject to bankruptcy, insolvency and other similar debtors' rights laws.

28.2 Representations and Warranties of Tenant. Tenant hereby warrants and represents to Tenant that as of the date hereof:

(a) Tenant has full right, power and capacity to enter into this Lease and to carry out the transactions contemplated hereby, and the execution and delivery of this Lease and the consummation of the transactions contemplated hereby has not resulted, and will not result, (with or without the lapse of time, the giving of notice, or both) in a conflict with or constitute a default under any agreement, contract or other instrument to which Tenant is a party.

(b) Tenant is a duly organized and validly existing limited liability company under the laws of the State of Tennessee; the execution and delivery of this Lease and the consummation of the transactions contemplated hereby has been authorized by all necessary action and has not resulted and will not result (with or without the lapse of time, the giving of notice or both) in any breach of, or in a conflict with any of the terms or provisions of the limited liability company agreement or other organizational documents of Tenant; and this Lease is binding and enforceable against Tenant in accordance with its terms subject to bankruptcy, insolvency and other similar debtors' rights laws.

#### **ARTICLE 29. BANKRUPTCY.**

29.1 Generally. Tenant covenants and agrees that it will remain obligated under this Lease in accordance with its terms, and that Tenant will not take any action to terminate, rescind, or avoid this Lease, notwithstanding the bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding-up or other proceeding affecting Tenant or any assignee of Tenant in any such proceeding and notwithstanding any action with respect to this Lease which may be taken by any trustee or receiver of Tenant or any such assignee in any such proceeding or by any court in any such proceeding.

29.2 Assumption of the Lease. In the event that Tenant shall file a petition, or an order for relief is entered against the Tenant, under Chapter 7, 9 or 11 of the Bankruptcy Code 11 U.S.C. § 101 et seq. (the "Bankruptcy Code"), and Tenant or the trustee of Tenant shall elect to assume this Lease whether or not for the purpose of assigning the same, and subject to the applicable provisions of Section 365 of the Bankruptcy Code, to the fullest extent permitted by applicable law, such assumption and assignment may only be made if all of the terms and conditions of subsections (a) and (b) hereof are satisfied.

(a) No election to assume this Lease shall be effective unless in writing and addressed to Landlord and unless all of the following conditions have been satisfied.

(i) The trustee or the debtor-in-possession has cured or has provided Landlord "adequate assurance" (as defined hereunder) that within ten (10) days from the date of such assumption, the trustee (or debtor-in-possession) will cure all monetary defaults under this Lease; and within thirty (30) days from the date of such assumption, the trustee (or debtor-in possession) will cure all non-monetary defaults under this Lease (to the extent curable within said thirty (30) day period).

(ii) The trustee or the debtor-in-possession has compensated, or has provided to Landlord adequate assurance that within ten (10) days from the date of assumption Landlord will be compensated, for any actual pecuniary loss incurred by Landlord arising from the default of the Tenant, the trustee, or the debtor-in possession, as recited in Landlord's written statement of pecuniary loss sent to the trustee or debtor-in-possession.

(iii) The trustee or the debtor-in-possession has provided Landlord with "adequate assurance" of the future performance of each of Tenant's obligations under the Lease with respect to the Property; provided, however, that the trustee or debtor-in-possession shall also deposit with Landlord, as security for the timely payment of Rent, an amount equal to three (3) months of the then current Base Rent; and the obligations imposed upon the trustee or debtor-in-possession shall continue with respect to Tenant after the completion of bankruptcy proceedings.

(iv) Landlord has determined that the assumption of this Lease will not breach any provision in any agreement by which Landlord is bound relating to the Property or Landlord has obtained any consents or waivers required to ensure that no such breach occurs; or disrupt, in Landlord's reasonable judgment, the reputation and profitability of the Property.

(v) "Adequate assurance" shall mean:

(A) Landlord shall determine that the trustee or the debtor-in-possession has and will continue to have sufficient unencumbered assets (other than by liens in favor of Landlord) after the payment of all secured obligations and administrative expenses to assure Landlord that the trustee or debtor-in possession will have sufficient funds to fulfill the obligations of Tenant under this Lease; and

(B) an order shall have been entered segregating sufficient cash payable to Landlord and/or there shall have been granted a valid and perfected first lien and security interest in property of the Tenant, trustee or debtor-in-possession, acceptable as to value and kind to Landlord, to secure to Landlord the obligation of the Trustee or debtor-in-possession to cure the monetary and/or non-monetary defaults under this Lease within the time periods set forth above.

(b) If the trustee or debtor-in-possession has assumed this Lease for the purpose of assigning (or election to assign) the Tenant's interest under this Lease or the estate created thereby, to any other person, such interest or estate may be so assigned only if Landlord shall acknowledge in writing that the intended assignee has provided "adequate assurance". The term "adequate assurance" shall mean that Landlord shall have ascertained that each of the following conditions has been satisfied:

(i) The assignee has submitted a current financial statement audited by independent certified public accountants of recognized standing selected by



Tenant and reasonably acceptable to Landlord which shows a net worth and working capital in amounts determined to be sufficient by Landlord to assure the future performance by such assignee of the Tenant's obligations under this Lease;

(ii) Landlord has obtained all consents or waivers from any third parties required under any lease, mortgage, financing arrangement or other agreement by which Landlord is bound to enable Landlord to permit such assignment;

(iii) The assignee has deposited six months of Base Rent as an adequate security deposit with Landlord; and

(iv) The assignee has demonstrated to the reasonable satisfaction of Landlord that its intended use of the Property is consistent with the terms of this Lease and will not diminish the reputation of the Property.

(c) Neither Tenant's interest in the Lease, nor any lesser interest of Tenant herein, nor any estate of Tenant hereby created, shall pass to any trustee, receiver, assignee for the benefit of creditors, or any other person or entity, or otherwise by operation of law under the laws of any state having jurisdiction of the person or property of the Tenant ("state law") unless Landlord shall consent to such transfer in writing. No acceptance by Landlord of Rent or any other payments from any such trustee, receiver, assignee, person or other entity shall be deemed to have waived, nor shall it waive the need to obtain Landlord's consent or Landlord's right to terminate this Lease for any transfer of Tenant's interest under this Lease without such consent.

(d) Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed without further act or deed to have assumed all of the obligations arising under this Lease relating to the Property on or after the date of such assignment. Any such assignee shall, upon demand, execute and deliver to Landlord an instrument confirming such assumption.

29.3 Charges. When, pursuant to the Bankruptcy Code, the trustee or debtor-in-possession shall be obligated to pay reasonable use and occupancy charges for the use of the Property or any portion thereof, such charges shall not be less than the then current Base Rent and any Additional Charges which may become due and other monetary obligations of Tenant.

#### **ARTICLE 30. MANAGEMENT OF PROPERTY BY MANAGER.**

Landlord consents to the management of the Property by Manager pursuant to the Management Agreement on the following terms contained herein:

30.1 Subordination. Any management fees due to Manager shall be subordinated to the Tenant's obligations to make lease payments to Landlord pursuant to a subordination agreement in form and substance acceptable to Landlord. Tenant shall not terminate or amend its Management Agreement with Manager nor permit any replacement of Manager under any Management Agreement without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Landlord acknowledges that Polaris Hospital Management, Inc. is the

current Manager and is approved to charge a management fee of two and one-half percent (2.5%). Provided further, certain other compensation amounts detailed in such Management Agreement shall be deemed part of the management fee and the aggregate of all amounts paid thereunder shall not exceed five percent (5%).

30.2 Future Agreements. Tenant agrees that it will not enter into any other Management Agreement (or similar arrangement) under which the right to manage the operations of the Property is granted to a third party without first obtaining Landlord's consent, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant may enter into a Management Agreement with an Affiliate of Tenant if Landlord gives its consent thereto as aforesaid and provided that:

(a) the Management Agreement is in writing and a complete copy thereof is delivered to Landlord prior to its effective date;

(b) the Management Agreement provides for total compensation, including, but not limited to, management fees, salaries and benefits, to the manager not to exceed five percent (5%) of the gross revenues of the Property; and

(c) the Manager shall have entered into an agreement with Landlord acknowledging that the Management Agreement and such manager's rights to payment of fees thereunder is subordinate to this Lease and to the rights and interests of Landlord in the Property under management.

#### **ARTICLE 31. EXPIRATION OR TERMINATION OF LEASE; TENANT'S COOPERATION.**

At the expiration or termination of this Lease, the following provisions shall apply:

31.1 Current Inventory. Tenant shall, for no additional consideration, sell, transfer and convey to Landlord or Landlord's designee, seven (7) days worth of Inventory (the "Current Inventory") owned by Tenant as of the termination date.

31.2 Remaining Inventory/Personal Property. Tenant shall sell, transfer and convey to Landlord or Landlord's designee, and Landlord or Landlord's designee shall purchase, the remaining Inventory and any Facility FF&E not owned by the Landlord (collectively the "Remaining Property") for an amount equal to the Fair Market Value of such remaining property. In the event the parties are unable for any reason to agree in writing to the Fair Market Value of such remaining property by the date which is one hundred eighty (180) days prior to expiration date of the Term (including all exercised Renewal Terms), the Fair Market Value of such remaining property shall be determined pursuant to Section 31.4. Provided however, if the Lease is terminated due to an Event of Default, the Facility FF&E shall be conveyed to Landlord for One Dollar (\$1.00).

31.3 Tenant's Proprietary Property. At the End of the Term of the Lease, Landlord shall not succeed to the ownership of either the accounts receivable of Tenant or any proprietary property of Tenant, including but not limited to, printed materials (such as operating manuals,

policies, procedures, and training manuals), computer software (unless used for administration of patient records or operations) developed by Tenant.

31.4 Appraisal Process. The following provisions shall apply in the event Landlord and Tenant are unable for any reason to agree in writing after negotiating for a period of thirty (30) days after the termination or expiration of this Lease as to the Fair Market Value of the Remaining Property:

(a) The Fair Market Value of the Remaining Property shall be determined by two (2) independent appraisal firms, in which one or more of the members, officers or principals of such firm are Members of the Appraisal Institute (or any successor organization thereto), as may be selected by Landlord and Tenant. Landlord and Tenant shall give to the other Notice of the identity of such appraiser (the "Appraiser") selected by each party as provided below. The written joint determination of such Appraisers shall be final and binding upon the parties. A written report of the Appraisers as to such Fair Market Value as provided in clause (g) hereof shall be delivered and addressed to each of Landlord and Tenant. This provision for determination by appraisal shall be specifically enforceable to the extent such remedy is available, and any determination hereunder shall be final and binding upon the parties except as otherwise provided by applicable law.

(b) Within fifteen (15) days after the other party receives Notice of the appointment of the first Appraiser, the other party shall by Notice to the other party appoint a second Appraiser meeting the requirements set forth above to act on its behalf. In such event, the Appraisers thus appointed shall, within thirty (30) days after the date of the appointment of the second Appraiser, proceed to determine in writing the Fair Market Value as of the relevant date.

(c) If the two Appraisers shall have been appointed and shall have made their written determinations within the respective requisite periods set forth above and if the difference between the amounts so determined shall not exceed ten percent (10%) of the lesser of such amounts, then the Fair Market Value of the Remaining Property shall be an amount equal to average of the two appraisals. If the difference between the amounts so determined shall exceed ten percent (10%) of the lesser of such amounts, then such two Appraisers shall have fifteen (15) days to appoint a third Appraiser meeting the above requirements, but if such Appraisers fail to do so, then either party may request the American Arbitration Association (the "AAA") or any successor organization thereto to appoint an Appraiser meeting the above requirements within fifteen (15) days of such request, and both parties shall be bound by any appointment so made within such fifteen (15) day period.

(d) If no such Appraiser shall have been appointed within such fifteen (15) day period or within one hundred twenty (120) days of the termination or expiration of the Lease, whichever is earlier, either Landlord or Tenant may apply to any court having jurisdiction to have such appointment made by such court.

(e) Any Appraiser appointed by the original Appraisers, by the AAA or by such court shall be instructed to make its determination of the Fair Market Value of the Remaining Property within thirty (30) days after appointment of such Appraiser in accordance with the methodologies and approaches set forth herein.

(f) Following the written determination by the third Appraiser described above (if applicable), the determination of the Appraiser which differs most in terms of dollar amount from the determinations of the other two Appraisers shall be excluded, and the average of the remaining two determinations shall be final and binding upon Landlord and Tenant as the Fair Market Value of the Remaining Property. This provision for determination by appraisal shall be specifically enforceable to the extent such remedy is available under applicable law, and any determination hereunder shall be final and binding upon the parties except as otherwise provided by applicable law.

Landlord and Tenant shall each pay the fees and expenses of the Appraiser appointed by it and each shall pay one-half (1/2) of the fees and expenses of any third Appraiser.

31.5 Records. Subject to Section 23.14 and any applicable Legal Requirements, Tenant shall transfer and convey the Records to Landlord or Landlord's designee.

31.6 Bill of Sale. Tenant shall execute a Bill of Sale in favor of Landlord in the form of Exhibit B with respect to the assets being conveyed to Landlord or Landlord's designee pursuant to this Article 31.

31.7 Licenses. To the extent not then prohibited by applicable Legal Requirements, unless otherwise directed by Landlord, upon the expiration or termination of the Term, Tenant shall use reasonable good faith efforts to (i) transfer to Landlord or Landlord's nominee (or to cooperate with Landlord or Landlord's nominee in connection with the processing by Landlord or Landlord's nominee of any applications for) all Licenses then in effect which relate to the operation of the Property or any Business and/or cooperate with Landlord or its nominee in their efforts to secure Licenses for which Landlord or its nominee wishes to apply and which may be required by Landlord or Landlord's nominee relating to the ownership and operation of the Property or any Business (provided, however, that the costs and expenses of any such transfer or the processing of any such application shall be paid by Landlord or Landlord's nominee), and (ii) file all final cost reports, if any, relating to Tenant's operation of the Property or any Business.

31.8 Assignment of Contracts and Leases. Upon the expiration or earlier termination of the Term, Tenant shall execute in favor of the Landlord as to the Property, the Assignment of Contracts and Leases.

31.9 Cooperation. In addition, Tenant shall cooperate with Landlord in order to ensure a smooth transfer without interruption of the operation of the Businesses to Landlord or Landlord's nominee. Such cooperation shall include, without limitation, turning over (i) all Records and other information with respect to patients of the Businesses which are in the possession of Tenant or any Affiliate of Tenant (subject to applicable Legal Requirements governing confidentiality of patient and employment records, Tenant agreeing, however, that Tenant's cooperation under this subparagraph (c) shall include cooperation in facilitating

requests to the patients of the Businesses to consent to the transfer of such patient records), and (ii) a cash amount equal to all prepaid income, rents, and revenues of any kind with respect to the Property, including, but not limited to, security deposits, rents and other sums paid by patients covering any period from and after the date of such expiration or termination, but reduced to the extent and amount any such prepaid items must be, and are, refunded to the payor(s) by Tenant.

31.10 Operations Transfer Agreement. Upon the expiration or earlier termination of the Term, at the request of Landlord or its nominee, Tenant shall enter into an Operations Transfer Agreement (an "O.T.A.") with the successor operator of any Business in form and substance as requested by Landlord as customary in the industry. The O.T.A. shall define responsibility and liability for matters relating to the continuing operation of any Business arising prior to the date operations of any Business are transferred from Tenant to the successor licensed operator of the any Business (herein the "Operations Transfer Date") and for matters and liabilities relating to the Business or Property arising on or after the Operations Transfer Date. The O.T.A. shall address as of the Operations Transfer Date and without limitation the proration of periodic fees due under continuing service contracts; utility charges and deposits; employee salaries, wages and other employment benefits for employees whose employment is to continue beyond the Operations Transfer Date; and mutual indemnities. The O.T.A. shall include applicable indemnity provisions for which Tenant is liable under Article 21 of this Lease and shall provide for indemnification of Tenant by any successor operator of the Business or Property for liabilities related to operations of the Business or Property after the Operations Transfer Date. To the extent not then prohibited by applicable Legal Requirements, unless otherwise directed by Landlord, upon the expiration or termination of the Term, Tenant shall use reasonable good faith efforts to (i) transfer to Landlord or Landlord's nominee (or to cooperate with Landlord or Landlord's nominee in connection with the processing by Landlord or Landlord's nominee of any applications for) all Licenses then in effect which relate to the operation of the Property or any Business and/or cooperate with Landlord or its nominee in their efforts to secure Licenses for which Landlord or its nominee wishes to apply and which may be required by Landlord or Landlord's nominee relating to the ownership and operation of Property or any Business (provided, however, that the costs and expenses of any such transfer or the processing of any such application shall be paid by Landlord or Landlord's nominee), and (ii) file all final cost reports, if any, relating to Tenant's operation of the Businesses.

## ARTICLE 32. MISCELLANEOUS

32.1 Landlord's Status as a REIT. Tenant acknowledges that Landlord intends to elect to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code. Tenant shall not do anything which would adversely affect Landlord's status as a REIT. Tenant hereby agrees to modifications of this Lease which do not materially adversely affect Tenant's rights and liabilities if such modifications are required to retain or clarify Landlord's status as a REIT.

32.2 USA PATRIOT ACT AND ANTITERRORISM LAWS. Tenant represents and warrants to, and covenants with, Landlord that neither Tenant nor any of its respective constituent owners or affiliates currently are, or shall be at any time during the Lease Term, in violation of any laws relating to terrorism or money laundering (collectively, the "Anti-Terrorism Laws"), including without limitation Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001 and relating to Blocking Property and Prohibiting

Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (the "Executive Order") and/or the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Public Law 107-56) (the "USA Patriot Act"). Tenant covenants with Landlord that neither Tenant nor any of its respective constituent owners or affiliates is or shall be during the Lease Term a "Prohibited Person," which is defined as follows: (i) a person or entity that is listed in the Annex to, or is otherwise subject to, the provisions of the Executive Order; (ii) a person or entity owned or controlled by, or acting for or on behalf of, any person or entity that is listed in the Annex to, or is otherwise subject to the provisions of, the Executive Order; (iii) a person or entity with whom Landlord is prohibited from dealing with or otherwise engaging in any transaction by any Anti-Terrorism Law, including without limitation the Executive Order and the USA Patriot Act; (iv) a person or entity who commits, threatens or conspires to commit or support "terrorism" as defined in Section 3(d) of the Executive Order; (v) a person or entity that is named as a "specially designated national and blocked person" on the then-most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, <http://www.treas.gov/offices/eotffc/ofac/sdn/tlstdn.pdf>, or at any replacement website or other replacement official publication of such list; and (vi) a person or entity who is affiliated with a person or entity listed in items (i) through (v), above. At any time and from time-to-time during the Lease Term, Tenant shall deliver to Landlord, within ten (10) days after receipt of a written request therefor, a written certification or such other evidence reasonably acceptable to Landlord evidencing and confirming Tenant's compliance with this Section 25.

32.3 Landlord's Right to Inspect. Landlord and its authorized representatives may, at any time and from time to time, upon reasonable notice to Tenant, inspect the Property during usual business hours subject to any security, health, safety or patient business confidentiality requirements of Tenant or any governmental agency, or created by any Insurance Requirement or Legal Requirement relating to the Property.

32.4 No Waiver. No failure by Landlord or Tenant to insist upon the strict performance of any term hereof or to exercise any right, power or remedy provided hereunder, and no acceptance of full or partial payment of Rent during the continuance of any such breach, shall constitute a waiver of any such breach or of any such term. To the extent permitted by applicable law, no waiver of any breach shall affect or alter this Lease, which shall continue in full force and effect with respect to any other then existing or subsequent breach.

32.5 Remedies Cumulative. To the extent permitted by law, each legal, equitable or contractual right, power and remedy of Landlord or Tenant now or hereafter provided either in this Lease or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power and remedy. The exercise or beginning of the exercise by Landlord or Tenant of any one or more of such rights, powers and remedies shall not preclude the simultaneous or subsequent exercise by Landlord or Tenant of any or all of such other rights, powers and remedies. The provisions of this Section are subject in all respects to the provisions of Article 25. Notwithstanding the foregoing, both parties waive the right to recover any indirect or consequential damages.

32.6 Acceptance of Surrender. No surrender to Landlord of this Lease or of all or any portion of or interest in the Property prior to expiration of the Term shall be valid or effective

unless agreed to and accepted in writing by Landlord, and no act by Landlord or any representative or agent of Landlord, other than such a written acceptance by Landlord, shall constitute an acceptance of any such surrender by Tenant.

32.7 No Merger of Title. There shall be no merger of this Lease or of the leasehold estate created hereby if the same person, firm, corporation or other entity acquires, owns or holds, directly or indirectly, this Lease or the leasehold estate created hereby or any interest in this Lease or such leasehold estate, and the fee estate in the Property.

32.8 Conveyance by Landlord. If Landlord or any successor owner of the Property conveys the Property in accordance with the terms hereof (other than as security for a debt), and the grantee or transferee of the Property expressly assumes all obligations of Landlord hereunder arising or accruing from and after the date of such conveyance or transfer, Landlord or such successor owner, as the case may be, thereupon shall be released from all liabilities and obligations of Landlord under this Lease arising after such conveyance or transfer.

32.9 Quiet Enjoyment. So long as Tenant pays all Rent as the same becomes due and fully complies with all of the terms of this Lease and fully performs its obligations hereunder when due, in each case within any cure period provided for herein, Tenant shall peaceably and quietly have, hold and enjoy the Property for the Term hereof, free of any claim or other action by Landlord or anyone claiming by, through or under Landlord, but subject to the Permitted Encumbrances and/or any liens and encumbrances of record hereafter consented to by Tenant in writing. Except as otherwise provided in this Lease, no failure by Landlord to comply with the foregoing covenant shall give Tenant any right to cancel or terminate this Lease or abate, reduce or make a deduction from or offset against the Rent or any other sum payable under this Lease, or to fail or refuse to perform any other obligation of Tenant hereunder. Notwithstanding the foregoing, Tenant shall have the right, by separate and independent action, to pursue any claim it may have against Landlord as a result of a breach by Landlord of the covenant of quiet enjoyment contained in this Section.

32.10 Notices. All notices, demands, requests, consents, approvals and other communications ("Notice" or "Notices") hereunder shall be in writing and shall be deemed to have been duly given when delivered in person (provided a signed receipt is obtained) or received by telegraphic or other electronic means (including telecopy and telex) or, if mailed, three (3) days after being deposited in the United States mail, certified or registered mail, postage prepaid, or if sent via Federal Express or similar courier service via overnight delivery, the next business day following receipt, addressed to the respective parties as follows (or to such other address as a party may hereafter designate):

If to Tenant:

SeniorHealth of Rutherford, LLC  
5500 Maryland Way, Suite 200  
Brentwood, TN 37027  
Attention: Kevin Lee  
Telephone: 615-973-3500  
Facsimile: \_\_\_\_\_

With a copy to:

Kramer Rayson LLP  
Post Office Box 629  
Knoxville, TN 37901-0628  
Physical: 800 S. Gay Street, Ste. 2500  
Knoxville, Tennessee 37929  
Attention: Shannon Coleman and George Arrants  
Telephone: 865-522-5134  
Facsimile: 865-522-5132

If to Landlord:

NHI-REIT of Tennessee, LLC  
222 Robert Rose Drive  
Murfreesboro, TN 37129  
Attention: Kristin S. Gaines  
Telephone: (615) 890-9100  
Facsimile: (615) 225-3030

With a copy to:

Harwell Howard Hyne Gabbert & Manner, P.C.  
315 Deaderick Street, Suite 1800  
Nashville, Tennessee 37238  
Attention: John Brittingham  
Telephone: (615) 251-1074  
Facsimile: (615) 251-1056

32.11 Survival of Terms; Applicable Law. Anything contained in this Lease to the contrary notwithstanding, all claims against, and liabilities of, Tenant or Landlord arising prior to any date of termination of this Lease shall survive such termination. If any term or provision of this Lease or any application thereof shall be invalid or unenforceable for any reason whatsoever, the remainder of this Lease and any other application of such term or provisions shall not be affected thereby. If any late charge or any interest rate provided for in any provision of this Lease based upon a rate in excess of the maximum rate permitted by applicable law, such charges shall be fixed at the maximum permissible rate. Subject to any limitations on assignment contained in this Lease, all the terms and provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. The headings in this Lease are for convenience of reference only and shall not limit or otherwise affect the meaning hereof. The Recitals to this Lease are incorporated herein by this reference. This Lease as to the Property shall be governed by and construed in accordance with the laws of the State, but not including its conflicts of laws rules.

32.12 Exculpation of Officers and Agents. This Lease is made on behalf of Landlord and Tenant by an officer of each, not individually, but solely in his capacity in such office as



authorized by the directors of each, pursuant to their respective bylaws or operating agreement. The obligations of this Lease are not binding upon, nor shall resort be had to the private property of, any of the directors, shareholders, officers, members, employees or agents of Landlord or Tenant.

32.13 Memorandum of Lease. Landlord and Tenant shall, concurrently with the execution of this Lease, enter into a short form memorandum of this Lease for the Property in form suitable for recording under the laws of the State. Tenant shall pay all costs and expenses of recording such memorandum of this Lease.

32.14 Disputes. It is agreed that if at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other party under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment with notice that such payment is made "under protest," such payment not being regarded as a voluntary payment and there shall survive the right on the part of said party to institute suit for recovery of such sum and if it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease; and if at any time a dispute shall arise between the parties hereto as to any work to be performed by either of them under the provisions hereof, the party against whom the obligation to perform the work is asserted may perform such work and pay the cost thereof with notice that such work is being performed and the cost thereof paid "under protest" and the performance of such work shall in no event be regarded as a voluntary performance, and there shall survive the right on the part of said party to perform the same or any part thereof, said party shall be entitled to recover the cost of such work or the cost of so much thereof as said party was not legally required to perform under the provisions of this Lease.

32.15 Attorneys' Fees. During the Term each party shall pay all reasonable legal fees and other out-of-pocket costs of the other incurred in connection with any event which would after due notice and the passage of time would constitute an Event of Default or a Landlord default if not cured; and in the event either party brings an action to enforce any of the terms hereof or in connection herewith, the prevailing party in such action shall be entitled to and the losing party agrees to pay the reasonable attorneys' fees and expenses, including reasonable attorneys' fees and expenses of appellate proceedings, of the prevailing party. Upon the occurrence of an Event of Default hereunder, Tenant shall be responsible for Landlord's reasonable attorneys' fees and expenses in connection with the enforcement of this Lease, including without limitation, any renewals or extensions of this Lease, and the review of any documents related to Landlord consents. Tenant shall be responsible for Landlord's reasonable attorneys' fees and expenses in the event the Lease should be amended, modified, or extended, or in connection with the grant of an easement over the Property or the execution and delivery of an estoppel certificate. Tenant shall reimburse Landlord for all recording fees for financing statements and continuation statements required to perfect Landlord's security interests under the Security Agreements described in Section 12.1.

32.16 Time is of the Essence. Time is hereby expressly made of the essence with respect to each and every term and provision of this Lease, including, but in no way limiting the generality of the foregoing, with respect to each and every time constraint and deadline imposed

by the terms of this Lease. The parties intend that they be strictly bound by the provisions concerning the timing performance of their respective obligations contained in this Lease. Further, if any attempt is made by either party to perform an obligation required by it to be performed or comply with a provision of this Lease required by it to be complied with, in any manner, other than in strict compliance with the time constraints applicable thereto, even if such purported attempt is but one day late, then such purported attempt at performance or compliance shall be deemed (i) violative of this "Time is of the Essence" clause, (ii) in contravention of the intent of the parties thereto and (iii) null and void and of no force and effect.

32.17 Submission to Jurisdiction. Landlord and Tenant each hereby irrevocably:

(a) submits, in any legal proceeding related to this Lease, to the non-exclusive in personam jurisdiction of the State of Tennessee or any United States court of competent jurisdiction sitting in any such State and agree to suit being brought in any such court;

(b) waives any objection that it may now or hereafter have to the venue of such proceeding in any such court located in any county in which the Property involved in such litigation is located, or Davidson County, Tennessee or Rutherford County, Tennessee or that such proceeding was brought in any inconvenient court; and

(c) agrees that nothing herein shall affect the right of either party to bring any legal proceedings (including a proceeding for enforcement of a judgment entered by any of the aforementioned courts) against the other party in any other court or jurisdiction in accordance with applicable law.

32.18 Waiver of Jury Trial. EACH OF LANDLORD AND TENANT HEREBY SEVERALLY, VOLUNTARILY, KNOWINGLY AND INTELLIGENTLY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF OR IN CONNECTION WITH, OR IN ANY WAY RELATED TO, DIRECTLY OR INDIRECTLY, THIS LEASE, AND/OR ANY RELATIONSHIP, COURSE OF CONDUCT OR DEALINGS OR NEGOTIATIONS PERTAINING TO ANY OF THE FOREGOING. EACH OF LANDLORD AND TENANT SEVERALLY ACKNOWLEDGES THAT THIS WAIVER OF JURY TRIAL IS A MATERIAL INDUCEMENT TO LANDLORD TO ENTER INTO THIS LEASE, AND THAT EACH OF LANDLORD AND TENANT HAS BEEN REPRESENTED BY INDEPENDENT LEGAL COUNSEL, SELECTED BY SUCH PARTY'S OWN FREE WILL, AND HAS HAD AN OPPORTUNITY TO CONSULT WITH SUCH INDEPENDENT LEGAL COUNSEL CONCERNING THE LEGAL EFFECT OF THIS WAIVER.

32.19 Use of Counterparts. This Lease may be executed in two or more counterparts and each counterpart shall be deemed to be an original. Facsimile signatures shall be sufficient to evidence any party's agreement to this Lease and to bind such party hereto.

32.20 Calculation of Time Periods. Unless otherwise specified, in computing any period of time described herein, the day of the act or event on which the designated period of time begins to run shall not be included and the last day of the period so computed shall be included,

unless such last day is a Saturday, Sunday or legal holiday, in which event the period shall run until the 5:00 PM Central Time on the next day which is not a Saturday, Sunday or a legal holiday.

32.21 Entire Agreement; Modifications. This Lease contains the entire agreement between Landlord and Tenant regarding the subject matter hereof and supersedes any and all other prior oral or written agreements, communications, covenants, representations or warranties between the parties regarding the subject matter hereof. No provision of this Lease may be waived, amended, supplemented or otherwise modified except by an agreement in writing signed by the parties hereto or their respective successors in interest.

*[Remainder of this page is blank]*

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease on the dates shown below to become effective as of September 30, 2011.

**TENANT:**

SENIORHEALTH OF RUTHERFORD, LLC,  
a Tennessee limited liability company

By: [Signature]  
Name: Kevin D. Lee  
Title: President

STATE OF Tennessee :  
COUNTY OF Davidson : ss

On this, the 30 day of September, 2011, before me, the undersigned officer, personally appeared Kevin D. Lee, who acknowledged himself to be the President of SeniorHealth of Rutherford, LLC (the "Company"), and being duly sworn according to law deposes and says that he, as such officer, being authorized to do so, executed the foregoing Instrument for the purposes therein contained, by signing the name of the Company by himself as \_\_\_\_\_.

IN WITNESS WHEREOF, I hereunto set my hand and official seal the day and year first above written.




[Signature]  
Notary Public

My Commission Expires: 9-8-2013

**LANDLORD:**

NHI-REIT OF TENNESSEE, LLC,  
a Tennessee limited liability company

By: National Health Investors, Inc.  
Its: Sole Member

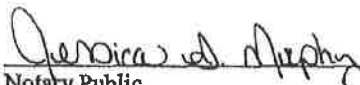
By:   
Name: J. Justin Hutchens  
Title: President

STATE OF Tennessee :  
COUNTY OF Rutherford : ss

On this, the 30<sup>th</sup> day of September, 2011, before me, the undersigned officer, personally appeared J. Justin Hutchens, who acknowledged himself to be the President of National Health Investors, Inc. the Sole Member of NHI-REIT of Tennessee, LLC (the "Company"), and being duly sworn according to law deposes and says that he, as such officer, being authorized to do so, executed the foregoing Instrument for the purposes therein contained, by signing the name of the Company by himself as President.

IN WITNESS WHEREOF, I hereunto set my hand and official seal the day and year first above written.



  
Notary Public

My Commission Expires: 7.21.13

**ATTACHMENT A.6.Overview**



June 26, 2012

Kevin D. Lee  
President  
SeniorHealth of Rutherford, LLC  
1009 North Thompson Lane  
Murfreesboro, Tennessee 37129

Re: Lease of hospital facility

Dear Mr. Lee

This letter confirms to you that a subsidiary of National Health Investors, NHI-REIT of Tennessee, LLC, acquired the land on September 30, 2011 and on which we are having a 60-bed hospital constructed for operation by SeniorHealth of Rutherford, LLC. The acquisition of the land is evidenced by the copy of the attached deed of trust.

On September 30, 2011, NHI-REIT of Tennessee, LLC and SeniorHealth of Rutherford entered into a lease of the hospital. The lease period is 15 years, and at the option of the lessee SeniorHealth of Rutherford, the lease may be extended for five additional periods of ten years each. The initial annual lease rate will be approximately \$2,050,000. The lease term will commence soon after completion of construction of the hospital facility. The construction will be completed in early August 2012.

Sincerely,

Kristi Gaines  
Chief Credit Officer

## ATTACHMENT A.6.Title

This Instrument Prepared By  
Murfree & Murfree, PLLC, Attorneys  
805 S. Church Street, Suite 21  
Murfreesboro, Tennessee 37130  
From information furnished by the parties

Record Book  
1084 Pg 3906

Name and Address of New Owner:

Send Tax Bills To:

NHI-REIT of Tennessee, LLC  
222 Robert Rose Boulevard  
Murfreesboro, TN 37129

same

Tax Map 092; Parcel 02721

STATE OF TENNESSEE  
COUNTY OF RUTHERFORD

FOR AND IN THE CONSIDERATION of TEN AND NO/100 (\$10.00)  
DOLLARS, cash in hand paid, and other good and valuable consideration, the receipt of  
which is hereby acknowledged, I, the undersigned, **ELGIN OLIVER, JR.**, have this day  
bargained and sold and do hereby transfer and convey unto **NHI-REIT OF  
TENNESSEE, LLC**, a Tennessee limited liability company, its successors and assigns,  
forever, the following described real estate situated in the 13th Civil District of  
Rutherford County, Tennessee, to-wit:

Being a tract of land in the 13th Civil District, City of Murfreesboro,  
Rutherford County, Tennessee. Said tract known as Parcel 27.21 of  
Property Map 92, of the Rutherford County Property Assessor's Mapping  
System, and bounded as follows: on the north by the lands of Fred and  
Annie Mai Johnson, Deed Book 93, page 247 (parcel 73), and the lands of  
Annie Mai Johnson, Deed Book 90, page 324; on the east by the western  
right-of-way of North Thompson Lane; on the south by the lands of  
Shearer Ann and Mary E. Brown, Record Book 466, page 196 and Record  
Book 827, page 2710; and on the west by the lands of Shearer Ann Brown,  
et al, Record Book 466, page 196, the lands of Linda M. Murphy, Deed  
Book 287, page 709, the lands of Miller H. and Nancy Z. Lanier, Deed  
Book 167, page 345, and the lands of Fred and Annie Mai Johnson, Deed  
Book 156, page 274 (parcel 76). All references made herein are of the  
Register's Office, Rutherford County, Tennessee. Said tract more  
particularly described as follows:

Beginning at an iron pin found in the western right-of-way of North  
Thompson Lane, said pin being the southeast corner of Annie Mai  
Johnson, and the northeast corner of this tract, thence with said western  
right-of-way, S 31° 02' 08" W, 225.40 feet to an iron pin set, said pin  
being the northeast corner of Shearer A. and Mary E. Brown, and the  
southeast corner of this tract; thence leaving said right-of-way and with the  
north line of Shearer A. and Mary E. Brown, N 84° 35' 30" W, 624.30 feet  
to an iron pin set, said pin being a break in the east line of Shearer Ann  
Brown, et al and the southwest corner of this tract; thence with the east  
line of Brown, N 03° 44' 26" E, 89.82 feet to an iron pin found, said pin  
being the northeast corner of Brown and the southeast corner of Murphy;  
thence with the east line of Murphy, N 03° 11' 52" E, 150.08 feet to an

iron pipe found, said pipe being the northeast corner of Murphy and the southeast corner of Lanier; thence with the east lines of Lanier and Johnson (parcel 76), N 03° 46' 27" E, 315.06 feet to an iron pin found, said pin being the southwest corner of Johnson (parcel 73), and the northwest corner of this tract; thence with the south line of Johnson (parcel 73), S 59° 07' 35" E, 618.81 feet to a cedar fence post found, said fence post being the southeast corner of Johnson (parcel 73) and the southwest corner of Annie Mai Johnson; thence with the south line of Annie Mai Johnson, S 59° 16' 19" E, 199.67 feet to the point of beginning, containing 265,411 square feet, or 6.093 acres, more or less, according to field survey performed by Site Engineering Consultants, Inc. on July 28, 2010, as updated on September 21, 2011.

Being the same property conveyed to Elgin Oliver, Jr. by trustee's quitclaim deed of record in Record Book 601, page 1940, in the Register's Office of Rutherford County, Tennessee.

This conveyance is made subject to all restrictions, covenants, easements and setback lines that are applicable to the above-described property, and of record, and to all zoning restrictions of the appropriate governmental body.

TO HAVE AND TO HOLD said real estate, together with all of the appurtenances, estate and title thereunto belonging unto the said grantee, its successors and assigns, forever.

I covenant with the said grantee that I am lawfully seized and possessed of said real estate; that I have a good and lawful right to convey the same and that the same is unencumbered, except the 2011 property taxes, which have been prorated between the parties.

I further covenant and bind myself, my heirs and representatives, to forever warrant and defend the title to said real estate unto the said grantee, its successors and assigns, against the lawful claims of all persons, whomsoever.

The undersigned, DOROTHY M. OLIVER, hereby joins in the execution of this instrument for the purposes of and does hereby convey to the grantee all of her right, title, claim and interest in and to the above-described real estate, including but not limited to her homestead, dower, and any and all other marital rights.

WITNESS OUR HANDS on this the 30<sup>th</sup> day of Sept., 2011.

  
ELGIN OLIVER, JR.

  
DOROTHY M. OLIVER

STATE OF TENNESSEE  
COUNTY OF RUTHERFORD

Personally appeared before me, the undersigned authority, a Notary Public in and for the State and County aforesaid, the within named ELGIN OLIVER, JR. and



wife, DOROTHY M. OLIVER, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who acknowledged that they executed the within instrument (DEED) for the purposes therein contained.

WITNESS MY HAND and official seal at my office on this the 30<sup>th</sup> day of Sept., 2011.

Jamie M. Smith  
Notary Public

My commission expires: 9-23-2014

STATE OF TENNESSEE  
COUNTY OF RUTHERFORD

I hereby swear or affirm that the actual consideration for this transfer or value of the property transferred, whichever is greater, is \$2,387,523.00, which amount is equal to or greater than the amount which the property transferred would command at a fair and voluntary sale.

Heather Dawbarn  
Affiant

Sworn to and subscribed before me,  
this 30<sup>th</sup> day of Sept., 2011.

Jamie M. Smith  
Notary Public

My commission expires: 9-23-2014



Record Book  
1084 Pg 3908

Heather Dawbarn, Register  
Rutherford County Tennessee  
Rec #: 669929  
Rec'd: 15.00 Instrument #: 1745783  
State: 8833.75  
Clerk: 1.00 Recorded  
Other: 2.00 10/3/2011 at 12:05 PM  
Total: 8851.75 in  
Record Book 1084 Pgs 3906-3908

REGISTER OF DEEDS of Rutherford County Tennessee  
Heather Anderson, Register  
Murfreesboro, TN

\*\*\* OFFICIAL DUPLICATE RECEIPT \*\*\*

Receipt Number: 669929  
Receipt Date: 10/3/2011  
Received By: Joan Husley, Chief Deputy  
Cash Drawer: deac010

|         |                                            |                  |                 |
|---------|--------------------------------------------|------------------|-----------------|
| 1745783 | Warranty Deed                              | 3 Pages          | 10851.75        |
|         | 10/3/2011 12:05 PM                         | RECORD 1004-3596 |                 |
|         | OLIVER ELGIN, JR/HEIT OF TENNESSEE LLC     |                  |                 |
|         | Recording Fee                              |                  | \$15.00         |
|         | EDS Fee                                    |                  | \$2.00          |
|         | Register's Fee                             |                  | \$1.00          |
|         | Transfer tax on \$2387221.00 consideration |                  | 10851.75        |
|         | <b>AMOUNT DUE:</b>                         |                  | <b>10851.75</b> |
| 01 3381 | MURFRE & MURFRE PLLC                       |                  | 10851.12        |
|         | <b>AMOUNT PAID:</b>                        |                  | <b>10851.12</b> |
|         | <b>LESS AMOUNT DUE:</b>                    |                  | <b>10851.75</b> |
|         | <b>CHECKS RETURNED:</b>                    |                  | <b>46.57</b>    |

If Paid By Check, This Receipt  
Is Not Valid Until Check Is Paid By Bank.

## ATTACHMENT A.6.LICENSE AGREEMENT

### LICENSE AGREEMENT

THIS LICENSE AGREEMENT is hereby made and entered into this 6th day of June, 2016, by and between Polaris Hospital Holdings, LLC (hereinafter referred to as the "POLARIS") and TrustPoint Hospital, LLC (hereinafter referred to as the "TRUSTPOINT").

### WITNESSETH;

**WHEREAS**, POLARIS is the fee simple owner of certain real property located in Rutherford County, Tennessee, (the "Property"); and

**WHEREAS**, TRUSTPOINT desires to the Property for the purpose of operating a behavioral and rehabilitation hospital (the "Hospital"); and

**WHEREAS**, POLARIS desires to grant to TRUSTPOINT a license for the aforementioned purpose.

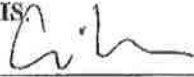
**NOW, THEREFORE**, for and in consideration of the terms, conditions and mutual covenants contained herein and other good and valuable consideration received by each party, the sufficiency of which are hereby acknowledged, POLARIS and TRUSTPOINT, hereby agree as follows:

1. POLARIS hereby grants TRUSTPOINT, its agents, servants and assigns the right, privilege and license to use the Property to locate, construct, install, operate, inspect, alter, improve, maintain, repair, move and rebuild the Hospital on, upon and across said Property; and attain ingress and egress to and upon said Property for the purpose of exercising the rights, privileges and license granted herein.
2. This License is granted for a primary term of ninety-nine (99) years from the date first written above and shall continue in full force and effect thereafter until terminated by POLARIS or TRUSTPOINT on one-hundred-eighty (180) days written notice.
3. The TRUSTPOINT expressly acknowledges and accepts its responsibility under applicable Tennessee State Law for loss, damage, or injury to persons or property, arising out of or resulting from unauthorized use of the Property, unless, however, such claim or demand shall arise out of or result from the negligence or willful misconduct of POLARIS, its servants, agents, employees, or assigns.
4. TRUSTPOINT agrees that any and all work performed on the Premises and in association with the purposes of this License shall be done in a good, safe, workmanlike manner and in accordance with applicable federal, state, and local statutes, rules, regulations and ordinances.
5. Upon termination of this License Agreement and demand by POLARIS, TRUSTPOINT shall, within a reasonable time and at TRUSTPOINT's sole cost and expense, remove all equipment, accessories, and materials owned by TRUSTPOINT from the License Area and restore said License Area as nearly as practicable to its condition prior to the granting of the License.
6. Nothing herein shall be construed to be an admission of liability by either party for any purposes.

IN WITNESS WHEREOF, the undersigned parties have executed this License Agreement on the day and year first above written.

POLARIS

Name:



Date:

6/6/2016

TRUSTPOINT:

Name:



Date:

June 6, 2016

## Middle Tennessee TennCare Managed Care Organizations:

### Middle Tennessee Health Plans

| Health Plan                                                                                                                                                                             | Member Services |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <b>AMERIGROUP</b><br><a href="http://www.amerigroupcorp.com">www.amerigroupcorp.com</a><br>Community Care<br>Three Lakewood Place<br>22 Century Blvd., Suite 310<br>Nashville, TN 37214 | 1-800-600-4441  |
| <b>BlueCare</b><br><a href="http://BlueCare">BlueCare</a><br>1 Cameron Hill Circle, Suite 0002<br>Chattanooga, TN 37402-0002<br>Fax 800-357-0453                                        | 1-800-468-9698  |
| <b>UnitedHealthcare Community Plan</b><br><a href="http://UnitedHealthcare Community Plan">UnitedHealthcare Community Plan</a><br>8 Cadillac Dr., Suite 100<br>Brentwood, TN 37027      | 1-800-690-1606  |
| <b>TennCareSelect</b><br>TennCare Select<br>1 Cameron Hill Circle, Suite 0002<br>Chattanooga, TN 37402-0002<br>FAX: 800-218-3190                                                        | 1-800-263-5479  |

Counties: Bedford, Cannon, Cheatham, Clay, Coffee, Cumberland, Davidson, DeKalb, Dickson, Fentress, Giles, Hickman, Houston, Humphreys, Jackson, Lawrence, Lewis, Lincoln, Macon, Marshall, Maury, Montgomery, Moore, Overton, Perry, Pickett, Putnam, Robertson, Rutherford, Smith, Stewart, Sumner, Trousdale, Van Buren, Warren, Wayne, White, Williamson and Wilson

<http://www.tn.gov/tenncare/mem-mcos.shtml>

#### Contracts:

**Amerigroup** – In Network Psychiatry

**BlueCare** – In Network Psychiatry & Physical Rehabilitation

**TennCare Select** – In Network Psychiatry & Physical Rehabilitation

**United Healthcare Community Plan** – Trustpoint Hospital has attempted to establish a contract with no success. The provider has informed us that their network is closed at this time.

## Rutherford County Mental Health Organizations:

LifeCare Family Services\*

Volunteer Behavioral Health Care System\*

Both of these organizations provide Outpatient Behavioral Health Services. Although no contract exists, we routinely collaborate with both facilities in the care of inpatients and outpatients.

\*[www.tamho.org/service.php](http://www.tamho.org/service.php)

## SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART

| A. Unit / Department          | Existing Location | Existing SF | Temporary Location | Proposed Final Location | Proposed Final Square Footage |         |       | Proposed Final Cost/ SF |         |           |
|-------------------------------|-------------------|-------------|--------------------|-------------------------|-------------------------------|---------|-------|-------------------------|---------|-----------|
|                               |                   |             |                    |                         | Renovated                     | New     | Total | Renovated               | New     | Total     |
| Rehab Therapy                 |                   |             |                    |                         |                               | 2,189   |       |                         |         |           |
| Dialysis                      |                   |             |                    |                         |                               | 1,493   |       |                         |         |           |
| ECT                           |                   |             |                    |                         |                               | 1,670   |       |                         |         |           |
| Administration                |                   |             |                    |                         |                               | 4,104   |       |                         |         |           |
| Linens/EVS                    |                   |             |                    |                         |                               | 1,855   |       |                         |         |           |
| Materials Management          |                   |             |                    |                         |                               | 1,048   |       |                         |         |           |
| Kitchen/Dining                |                   |             |                    |                         |                               | 6,370   |       |                         |         |           |
| Gym/Activity Center           |                   |             |                    |                         |                               | 3,667   |       |                         |         |           |
| Day School                    |                   |             |                    |                         |                               | 3,923   |       |                         |         |           |
| Child/Adolescent RTC          |                   |             |                    |                         |                               | 16,164  |       |                         |         |           |
| Child Unit                    |                   |             |                    |                         |                               | 8,082   |       |                         |         |           |
| Adolescent Unit               |                   |             |                    |                         |                               | 8,082   |       |                         |         |           |
| Geriatric Unit                |                   |             |                    |                         |                               | 17,264  |       |                         |         |           |
| Adult Unit                    |                   |             |                    |                         |                               | 13,679  |       |                         |         |           |
| Adult Co-Occurring Unit       |                   |             |                    |                         |                               | 12,459  |       |                         |         |           |
| Existing Hospital Expansion   |                   |             |                    |                         |                               | 3,372   |       |                         |         |           |
| Connector                     |                   |             |                    |                         |                               | 4,500   |       |                         |         |           |
|                               |                   |             |                    |                         |                               |         |       |                         |         |           |
|                               |                   |             |                    |                         |                               |         |       |                         |         |           |
|                               |                   |             |                    |                         |                               |         |       |                         |         |           |
|                               |                   |             |                    |                         |                               |         |       |                         |         |           |
| B. Unit/Depart. GSF Sub-Total |                   |             |                    |                         |                               | 109,921 |       |                         |         |           |
|                               |                   |             |                    |                         |                               |         |       |                         |         |           |
| C. Mechanical/ Electrical GSF |                   |             |                    |                         |                               | 2,000   |       |                         |         |           |
| D. Circulation /Structure GSF |                   |             |                    |                         |                               | 15,451  |       |                         |         |           |
| E. Total GSF                  |                   |             |                    |                         |                               | 127,372 |       |                         | 127,372 | \$ 321.81 |

# ATTACHMENT B.I.C

*Payer Mix from Inception through 03/31/2016*

| House-wide Payor Mix    |                      |                     |
|-------------------------|----------------------|---------------------|
| Payor                   | Number of Admissions | Percentage by Payor |
| BCR                     | 3,988                | 29%                 |
| COM                     | 2,739                | 20%                 |
| MCD                     | 1,517                | 11%                 |
| MCR                     | 3,854                | 28%                 |
| MGD                     | 1,334                | 10%                 |
| SEL                     | 249                  | 2%                  |
| WRK                     | 20                   | 0%                  |
| <b>Total Admissions</b> | <b>13,701</b>        | <b>100%</b>         |

\*includes sub-acute admissions

| Legend     |                        |
|------------|------------------------|
| <b>BCR</b> | Blue Cross Blue Shield |
| <b>COM</b> | Commercial             |
| <b>MCD</b> | Medicaid               |
| <b>MCR</b> | Medicare               |
| <b>MGD</b> | Managed Medicare       |
| <b>SEL</b> | Self                   |
| <b>WRK</b> | Workers Comp           |

| Adult Psychiatry Payor Mix |                      |                     |
|----------------------------|----------------------|---------------------|
| Payor                      | Number of Admissions | Percentage by Payor |
| BCR                        | 975                  | 24%                 |
| COM                        | 730                  | 18%                 |
| MCD                        | 914                  | 23%                 |
| MCR                        | 935                  | 23%                 |
| MGD                        | 443                  | 11%                 |
| SEL                        | 51                   | 1%                  |
| <b>Total Admissions</b>    | <b>4,048</b>         | <b>100%</b>         |

| Geriatric Psychiatry Payer Mix |                      |                     |
|--------------------------------|----------------------|---------------------|
| Payer                          | Number of Admissions | Percentage by Payer |
| BCR                            | 118                  | 6%                  |
| COM                            | 91                   | 5%                  |
| MCD                            | 58                   | 3%                  |
| MCR                            | 1269                 | 63%                 |
| MGD                            | 471                  | 23%                 |
| SEL                            | 2                    | 0%                  |
| <b>Total Admissions</b>        | <b>2,009</b>         | <b>100%</b>         |

| Physical Medicine & Rehabilitation Payor Mix |                      |                     |
|----------------------------------------------|----------------------|---------------------|
| Payor                                        | Number of Admissions | Percentage by Payor |
| BCR                                          | 236                  | 19%                 |
| COM                                          | 125                  | 10%                 |
| MCD                                          | 5                    | 0%                  |
| MCR                                          | 702                  | 56%                 |
| MGD                                          | 162                  | 13%                 |
| SEL                                          | 8                    | 1%                  |
| WRK                                          | 13                   | 1%                  |
| <b>Total Admissions</b>                      | <b>1,251</b>         | <b>100%</b>         |



| Medical Psychiatry/Detox Payor Mix |                      |                     |
|------------------------------------|----------------------|---------------------|
| Payor                              | Number of Admissions | Percentage by Payor |
| BCR                                | 159                  | 24%                 |
| COM                                | 108                  | 17%                 |
| MCD                                | 52                   | 8%                  |
| MCR                                | 239                  | 37%                 |
| MGD                                | 60                   | 9%                  |
| SEL                                | 31                   | 5%                  |
| <b>Total Admissions</b>            | <b>649</b>           | <b>100%</b>         |

**Ambulatory Surgical Treatment Center Construction Cost Per Square Foot****Years: 2013 – 2015***Due to insufficient sample size, Construction ranges are not available.***Hospital Construction Cost Per Square Foot****Years: 2013 – 2015**

|                                | <b>Renovated<br/>Construction</b> | <b>New<br/>Construction</b> | <b>Total<br/>Construction</b> |
|--------------------------------|-----------------------------------|-----------------------------|-------------------------------|
| <b>1<sup>st</sup> Quartile</b> | \$160.66/sq ft                    | \$244.85/sq ft              | \$196.62/sq ft                |
| <b>Median</b>                  | \$223.91/sq ft                    | \$308.43/sq ft              | \$249.67/sq ft                |
| <b>3<sup>rd</sup> Quartile</b> | \$297.82/sq ft                    | \$374.32/sq ft              | \$330.50/sq ft                |

*Source: CON approved applications for years 2013 through 2015***Nursing Home Construction Cost Per Square Foot****Years: 2013 – 2015**

|                                | <b>Renovated<br/>Construction</b> | <b>New<br/>Construction</b> | <b>Total<br/>Construction</b> |
|--------------------------------|-----------------------------------|-----------------------------|-------------------------------|
| <b>1<sup>st</sup> Quartile</b> | \$46.91/sq ft                     | \$152.80/sq ft              | \$122.37/sq ft                |
| <b>Median</b>                  | \$90.00/sq ft                     | \$172.14/sq ft              | \$152.80/sq ft                |
| <b>3<sup>rd</sup> Quartile</b> | \$101.01/sq ft                    | \$185.00/sq ft              | \$172.14/sq ft                |

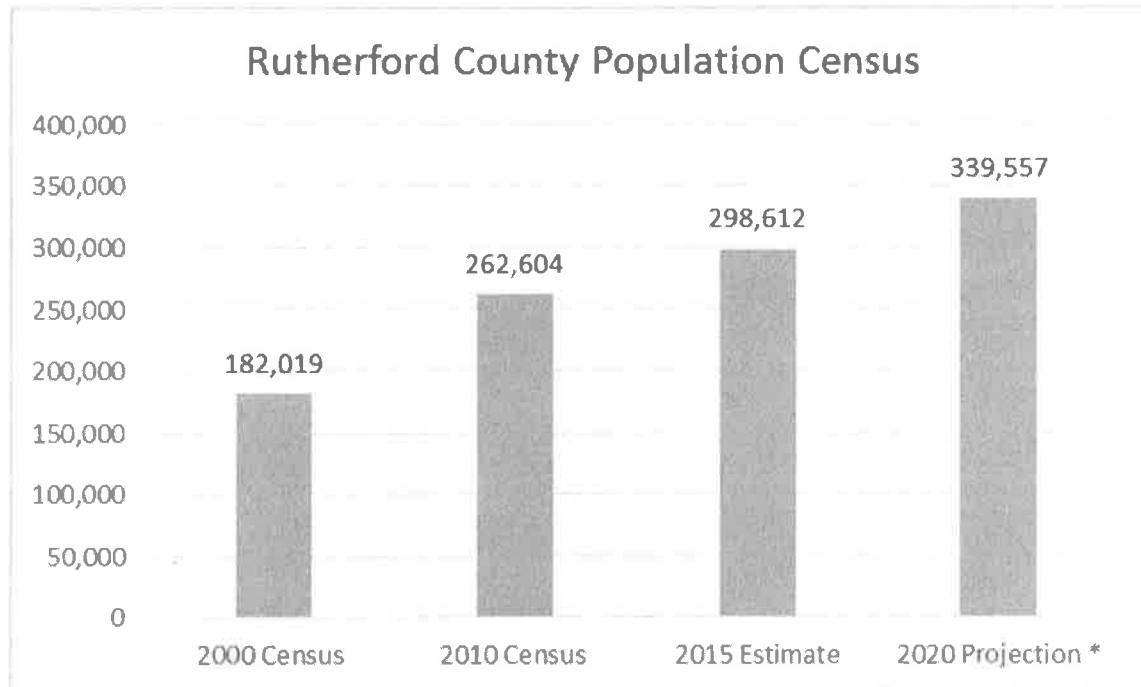
*Source: CON approved applications for years 2013 through 2015***Outpatient Diagnostic Center Construction Cost Per Square Foot****Years: 2013 – 2015***Due to insufficient sample size, Construction ranges are not available.**As of 4/25/2016*

# ATTACHMENT B.II.B.1

## *Admission and Denial Statistics Adult Psychiatry*

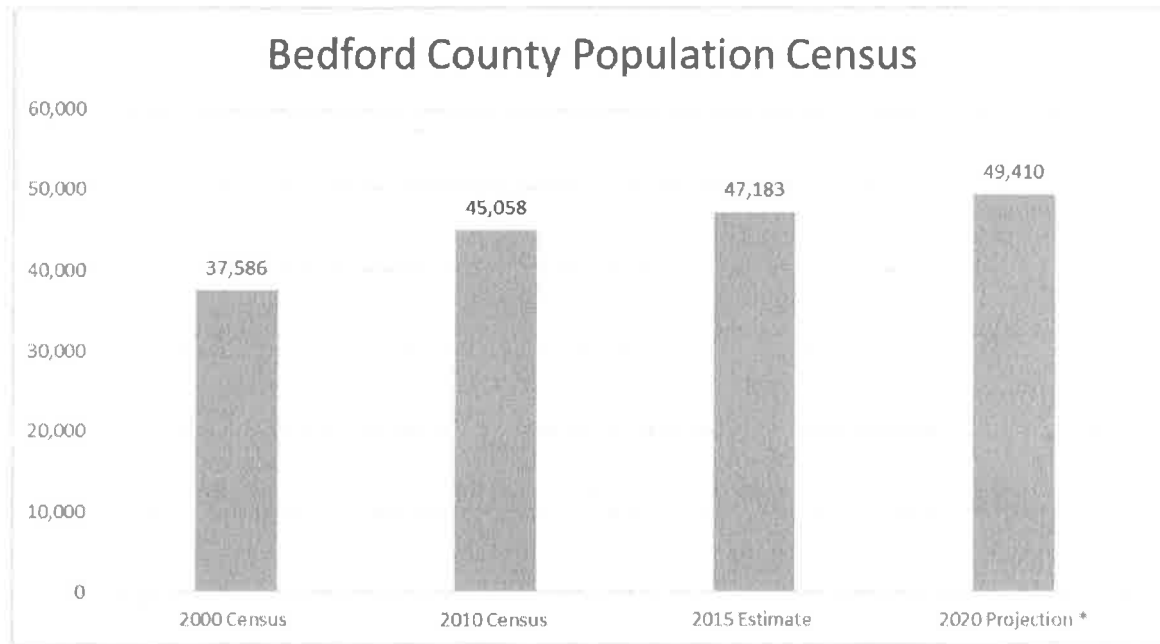
| Admission and Denial Statistics 2014 - 2016YTD                |        |        |        |        |        |        |        |        |        |
|---------------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                                               | Q12014 | Q22014 | Q32014 | Q42014 | Q12015 | Q22015 | Q32015 | Q42015 | Q12016 |
| Total Referrals                                               | 1082   | 1138   | 1336   | 1211   | 1742   | 2280   | 2374   | 2229   | 2599   |
| Admissions                                                    | 436    | 466    | 550    | 587    | 606    | 633    | 647    | 674    | 732    |
| Non-Admissions                                                | 646    | 672    | 786    | 624    | 1136   | 1647   | 1727   | 1555   | 1867   |
| Diverted - No Bed Available                                   | 117    | 63     | 148    | 49     | 275    | 569    | 464    | 237    | 435    |
| Diverted - Appropriate Referral (No Appropriate Service Line) | 154    | 233    | 235    | 251    | 330    | 374    | 451    | 590    | 500    |
| Diverted - Not Appropriate                                    | 375    | 376    | 403    | 324    | 531    | 704    | 812    | 728    | 932    |
| Total Non-Admissions                                          | 646    | 672    | 786    | 624    | 1136   | 1647   | 1727   | 1555   | 1867   |

*Rutherford County Population Census Growth and Projections (Nielson, 2013)*



\* Rutherford County projection extrapolated from 2000 – 2015 census data per [www.census.gov](http://www.census.gov)

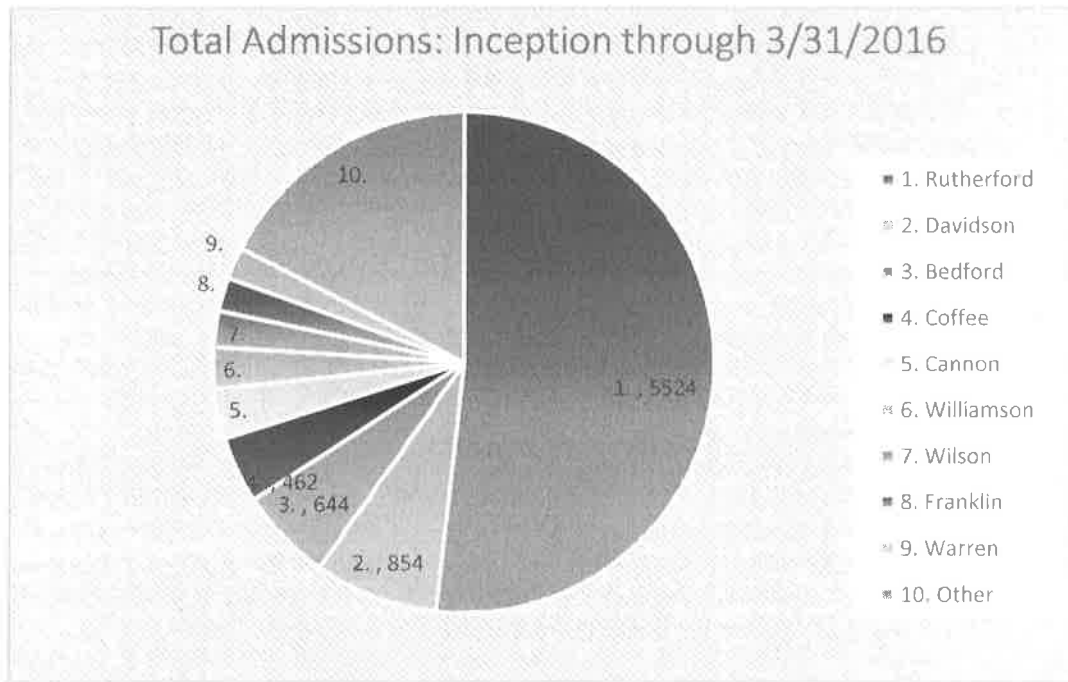
*Bedford County Population Census Growth and Projections*



\* Bedford County projection extrapolated from 2000 – 2015 census data per [www.census.gov](http://www.census.gov)

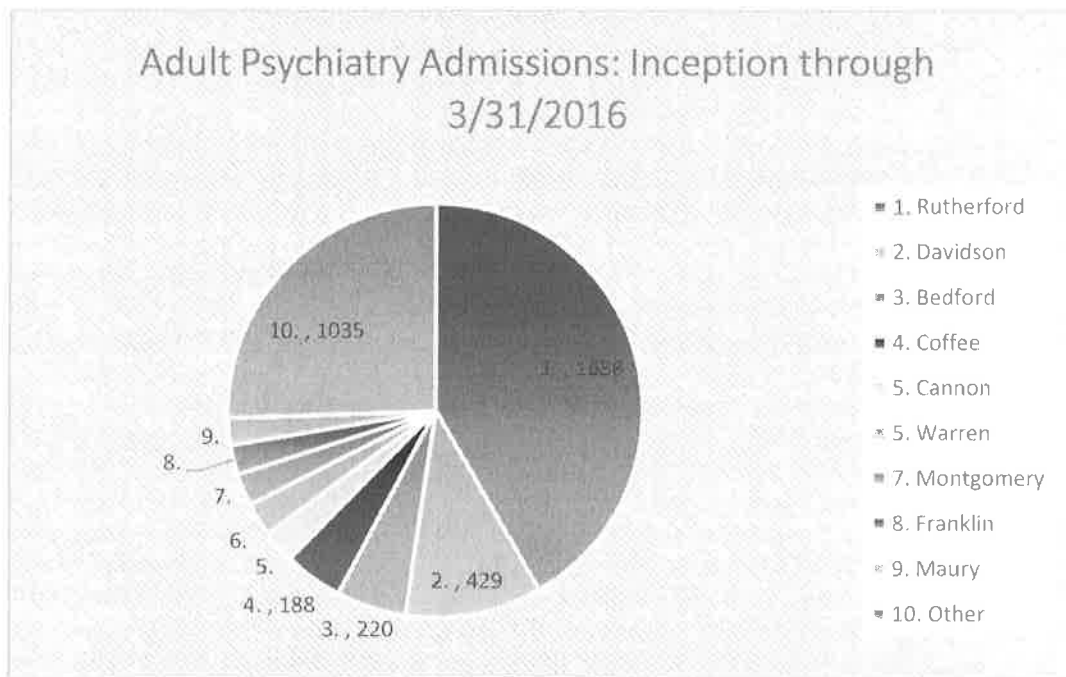
## ATTACHMENT B.II.C.1

*Total Admissions by County from Inception through 03/31/2016*



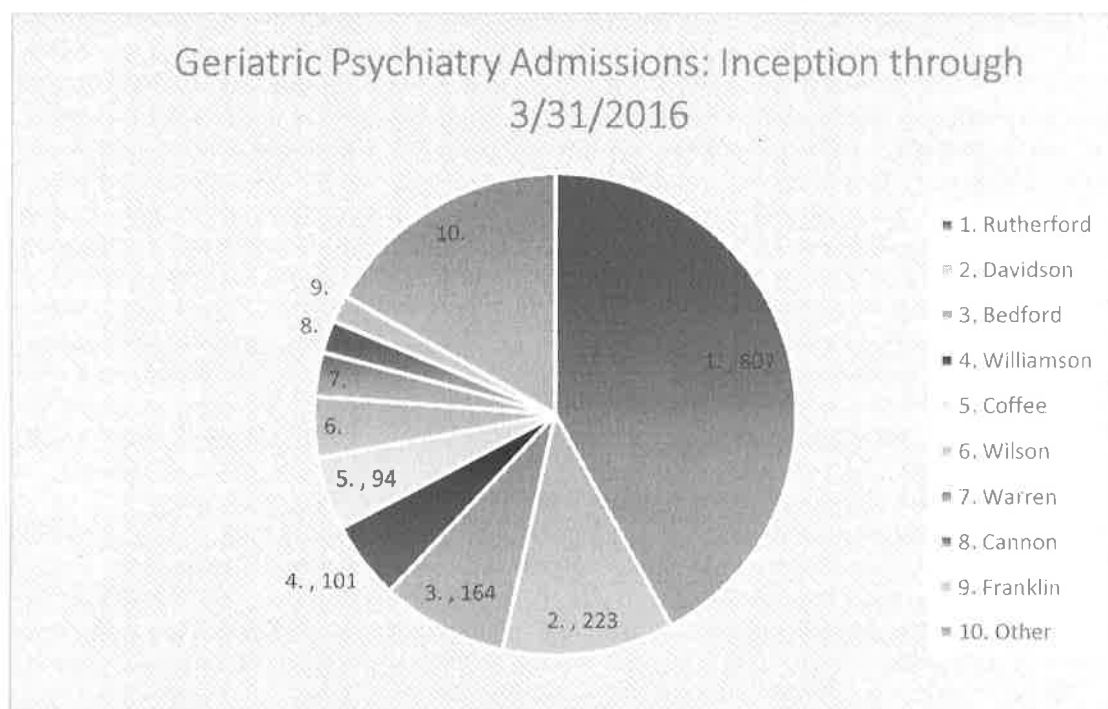
## ATTACHMENT B.II.C.2

*Total Adult Psychiatry Admissions by County from 09/04/2012 through 03/31/2016.*



### ATTACHMENT B.II.C.3

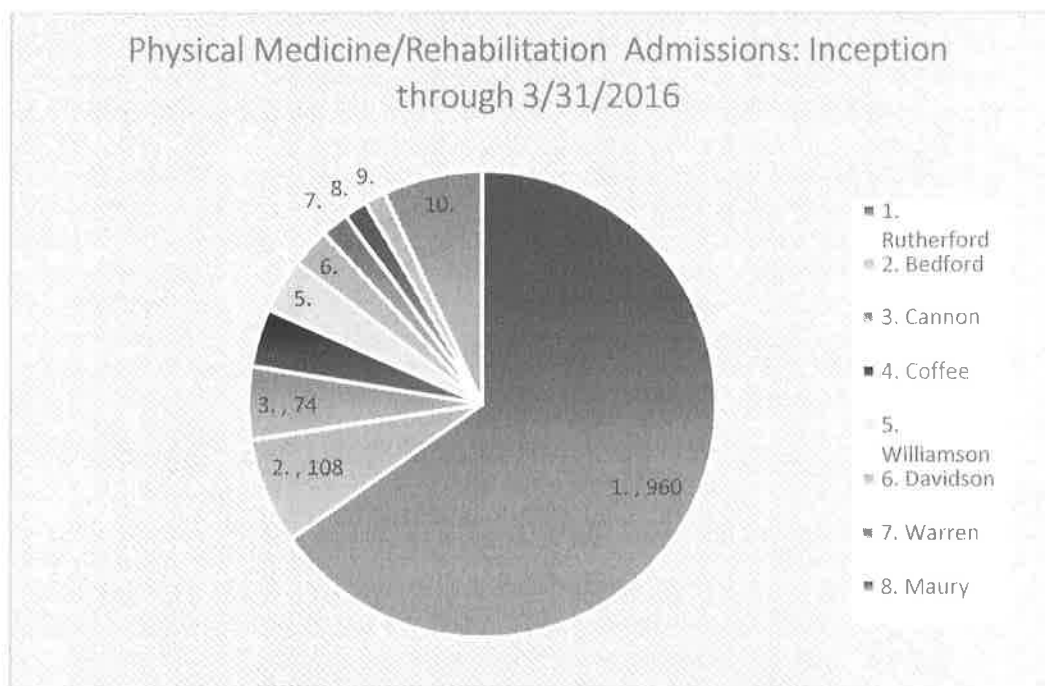
*Total Geriatric Psychiatry Admissions by County from 09/04/2012 through 03/31/2016.*





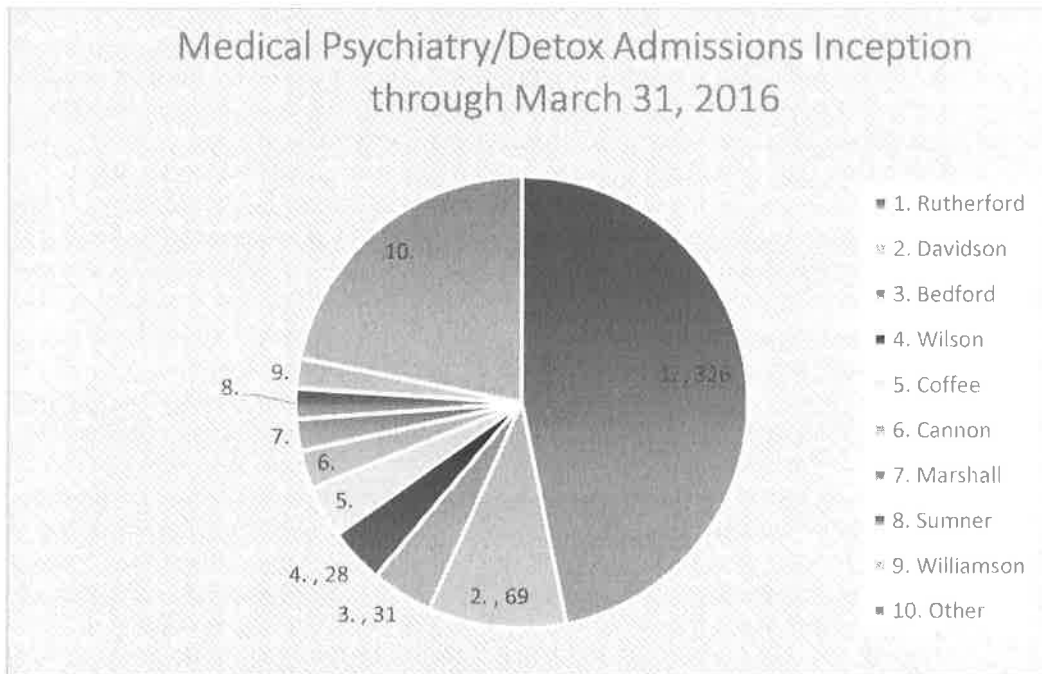
## ATTACHMENT B.II.C.4

*Total Physical Medicine/Rehabilitation Admissions by County from 09/04/2012 through 03/31/2016.*



## ATTACHMENT B.II.C.5

*Total Medical Psychiatry/Detox Admissions by County from 07/27/2012 through 03/31/2016.*

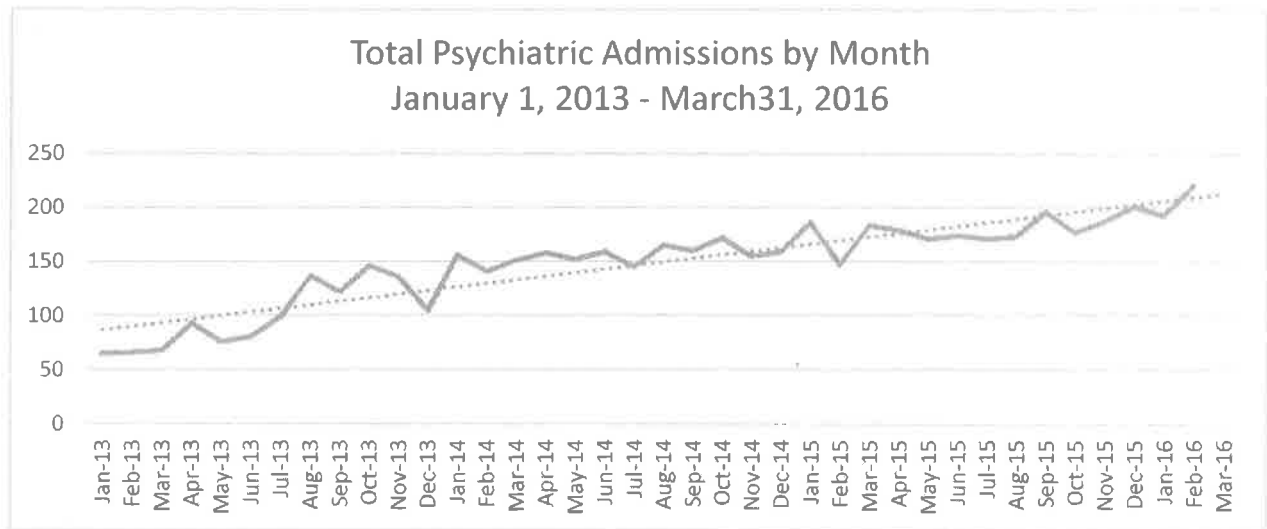


*Occupancy Rate by Service Line by Q1, 2013 – Q1, 2016.*

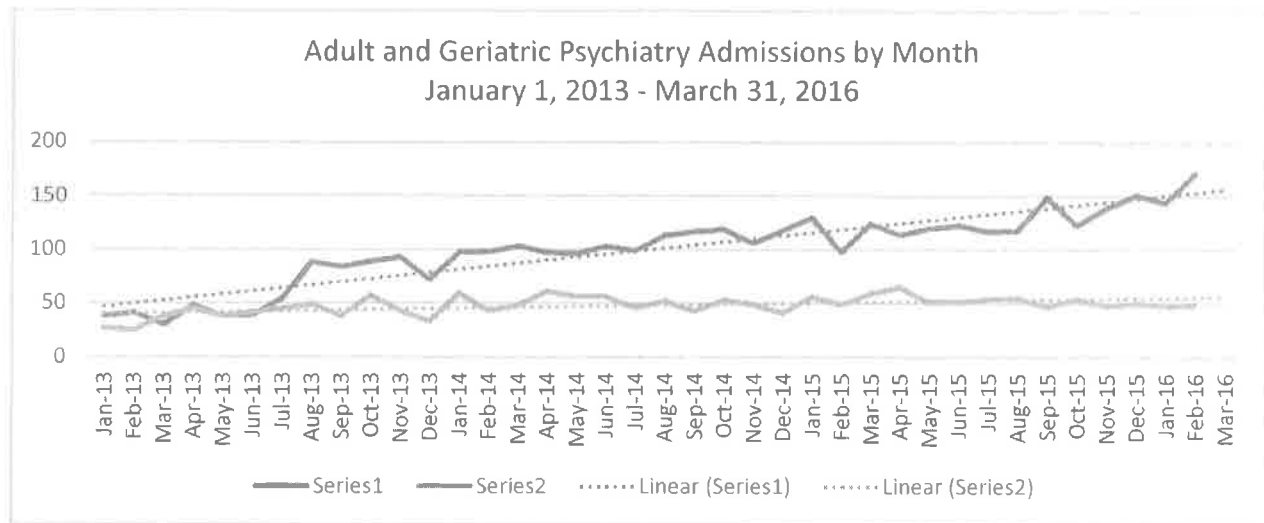
| Occupancy Rate by Service Line Quarterly Trend |             |             |             |             |             |             |             |             |             |             |             |             |             |
|------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                                | Q12013      | Q22013      | Q32013      | Q42013      | Q12014      | Q22014      | Q32014      | Q42014      | Q12015      | Q22015      | Q32015      | Q42015      | Q12016      |
| <b>Adult ADC</b>                               | <b>7.3</b>  | <b>7.4</b>  | <b>12.9</b> | <b>16.7</b> | <b>22.2</b> | <b>19.4</b> | <b>20.4</b> | <b>23.1</b> | <b>28.7</b> | <b>27.4</b> | <b>29.3</b> | <b>34.1</b> | <b>40.0</b> |
| Capacity                                       | 20          | 20          | 20          | 25          | 25          | 25          | 25          | 31          | 31          | 31          | 31          | 44          | 44          |
| Occupancy                                      | 37%         | 37%         | 65%         | 67%         | 89%         | 78%         | 82%         | 74%         | 93%         | 88%         | 95%         | 77%         | 91%         |
| <b>Geriatric ADC</b>                           | <b>13.0</b> | <b>16.1</b> | <b>17.9</b> | <b>17.8</b> | <b>18.3</b> | <b>21.4</b> | <b>21.4</b> | <b>20.6</b> | <b>23.6</b> | <b>24.7</b> | <b>22.4</b> | <b>22.7</b> | <b>23.6</b> |
| Capacity                                       | 20          | 20          | 20          | 25          | 25          | 25          | 25          | 28          | 28          | 28          | 28          | 28          | 28          |
| Occupancy                                      | 65%         | 81%         | 90%         | 71%         | 73%         | 86%         | 86%         | 73%         | 84%         | 88%         | 80%         | 81%         | 84%         |
| <b>Rehabilitation ADC</b>                      | <b>10.1</b> | <b>12.4</b> | <b>13.6</b> | <b>11.1</b> | <b>14.2</b> | <b>14.8</b> | <b>15.2</b> | <b>13.5</b> | <b>13.6</b> | <b>15.5</b> | <b>14.6</b> | <b>13.9</b> | <b>15.1</b> |
| Capacity                                       | 27          | 27          | 27          | 27          | 27          | 27          | 27          | 27          | 27          | 27          | 27          | 18          | 18          |
| Occupancy                                      | 37%         | 46%         | 50%         | 41%         | 53%         | 55%         | 56%         | 50%         | 50%         | 57%         | 54%         | 77%         | 84%         |
| <b>Medical ADC</b>                             | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>4.5</b>  | <b>5.3</b>  | <b>4.9</b>  | <b>5.9</b>  | <b>6.2</b>  | <b>5.4</b>  | <b>5.9</b>  |
| Capacity                                       | 0           | 0           | 0           | 0           | 0           | 0           | 10          | 10          | 10          | 10          | 10          | 10          | 10          |
| Occupancy                                      | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | 45%         | 53%         | 49%         | 59%         | 62%         | 54%         | 59%         |

*Projected Year 1 and Year 2 Occupancy Rate by Service Line.*

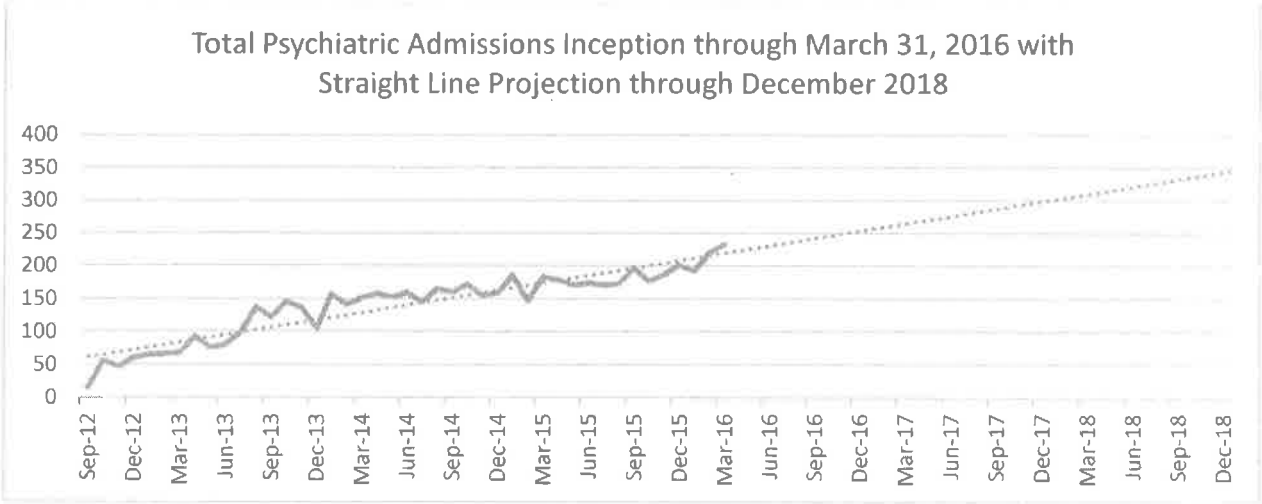
| Occupancy Rate by Service Line Projection |             |             |
|-------------------------------------------|-------------|-------------|
|                                           | Year 1      | Year 2      |
| Psych                                     |             |             |
| <b>Adult ADC</b>                          | <b>69.0</b> | <b>77.0</b> |
| Capacity                                  | 111         | 111         |
| Occupancy                                 | 62%         | 69%         |
| <b>Geriatric ADC</b>                      | <b>27.0</b> | <b>27.0</b> |
| Capacity                                  | 36          | 36          |
| Occupancy                                 | 75%         | 75%         |
| <b>Child/Adolescent ADC</b>               | <b>17.0</b> | <b>21.0</b> |
| Capacity                                  | 28          | 28          |
| Occupancy                                 | 61%         | 75%         |
| <b>Rehabilitation ADC</b>                 | <b>16.0</b> | <b>16.5</b> |
| Capacity                                  | 24          | 24          |
| Occupancy                                 | 67%         | 69%         |
| <b>Medical ADC</b>                        | <b>12.0</b> | <b>13.5</b> |
| Capacity                                  | 18          | 18          |
| Occupancy                                 | 67%         | 75%         |

*Total Psychiatric Admissions by Month from Inception through 03/31/2016.*

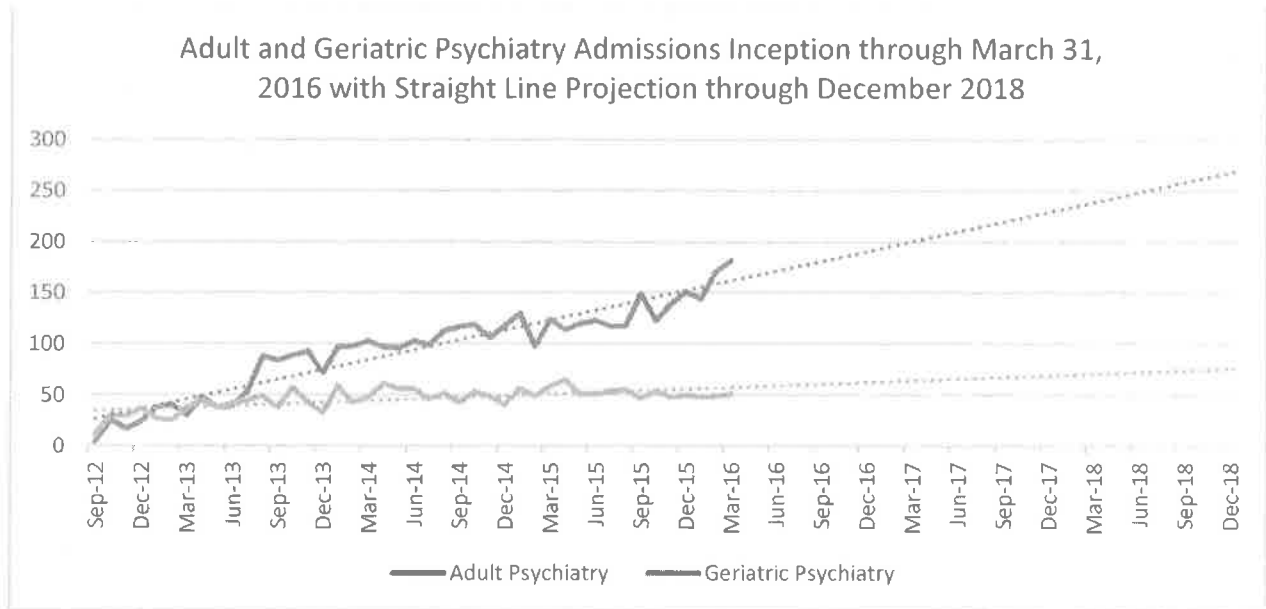
*Total Adult and Geriatric Psychiatry Admissions by Month from Inception through 03/31/2016*



*Total Psychiatry Admissions Trended by Month from Inception through 12/2018.*

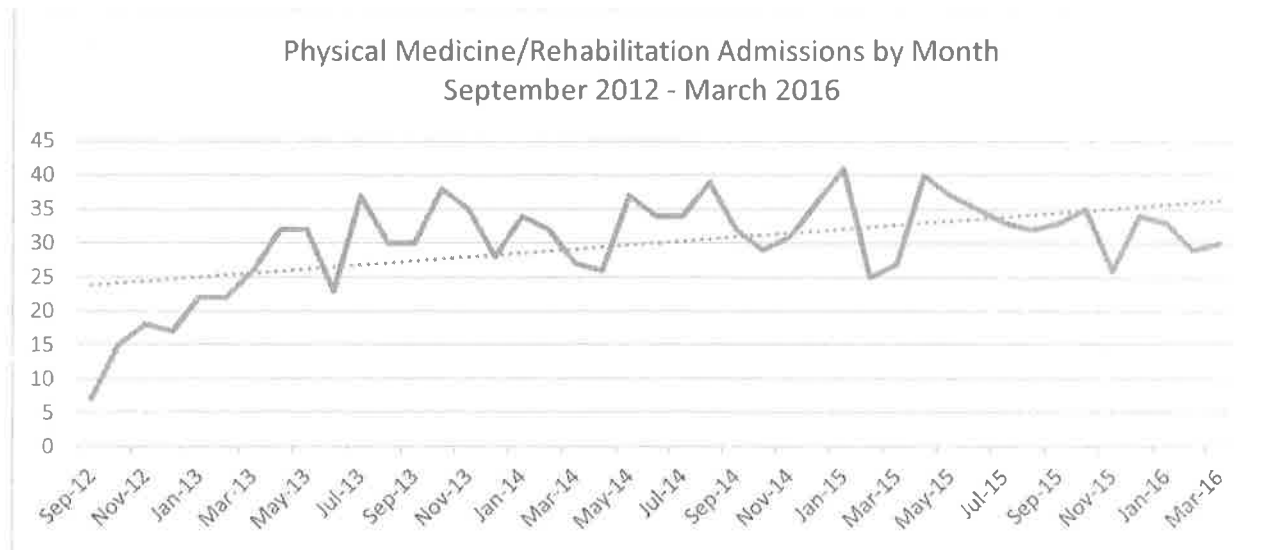


*Total Adult and Geriatric Psychiatry Admissions Trended by Month from Inception through 12/2018.*

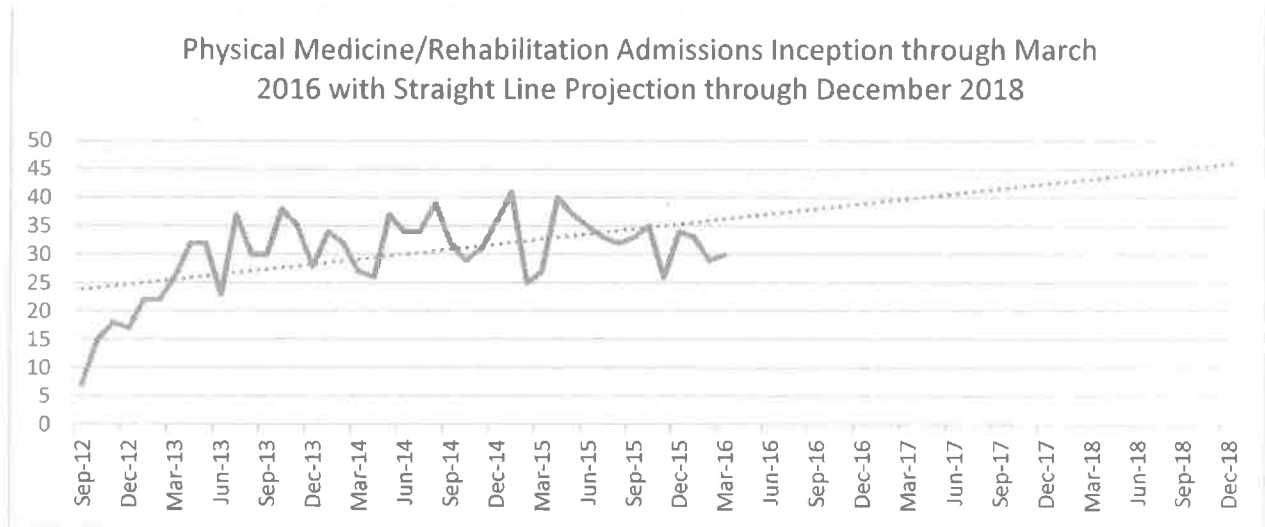




*Total Physical Medicine/Rehabilitation Admissions by Month from Inception through 03/2016.*



*Total Physical Medicine/Rehabilitation Admissions Trended by Month from Inception through 12/2018.*

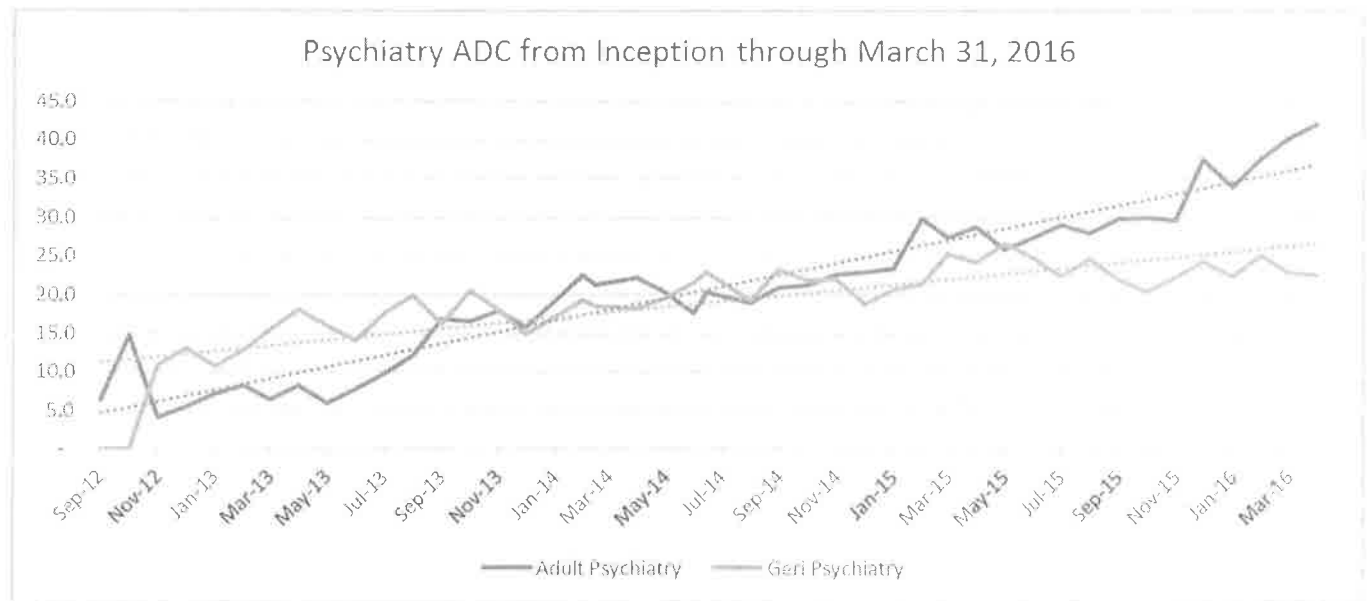


*Total Medical Psychiatry/Detox Admissions Trended by Month from Inception through 03/2016.*

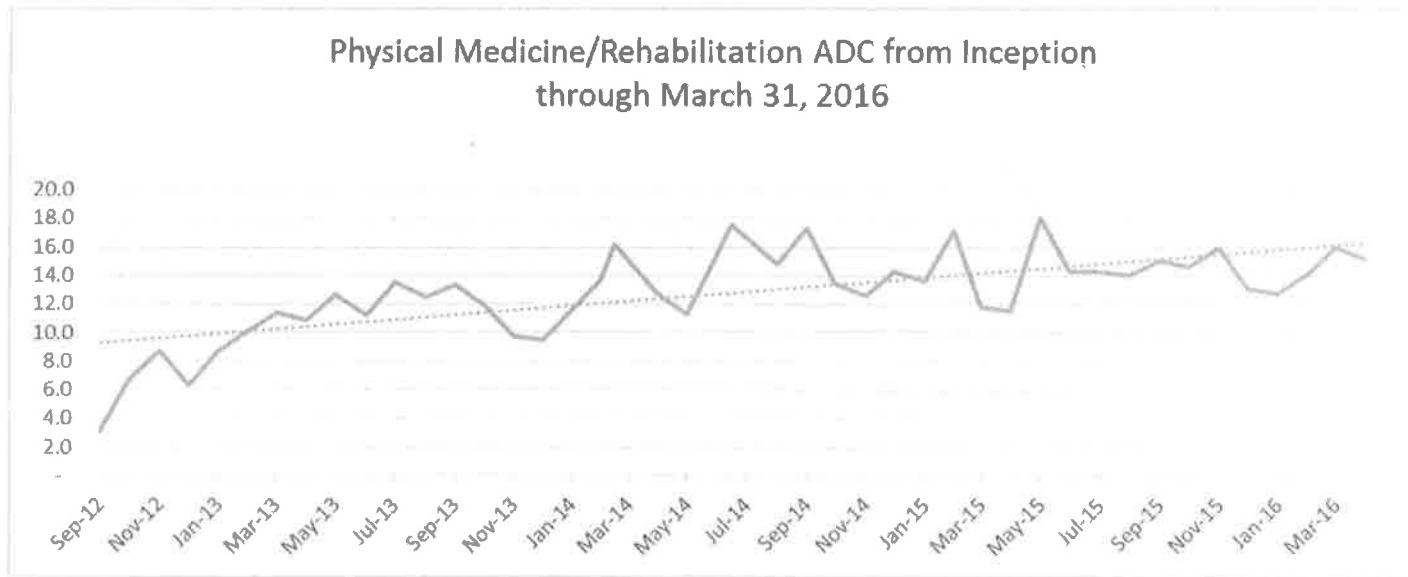


Total Medical Psychiatry/Detox Admissions Trended by Month from Inception through 12/2018.

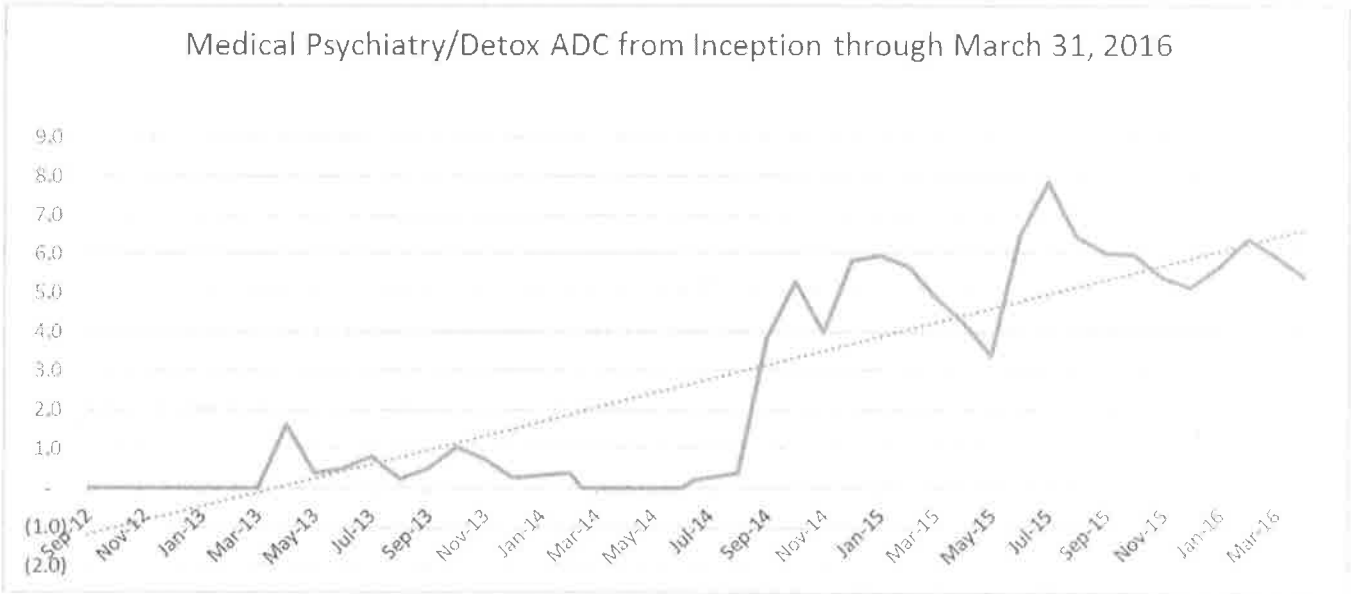


*Psychiatry Average Daily Census from Inception through 03/31/2016.*

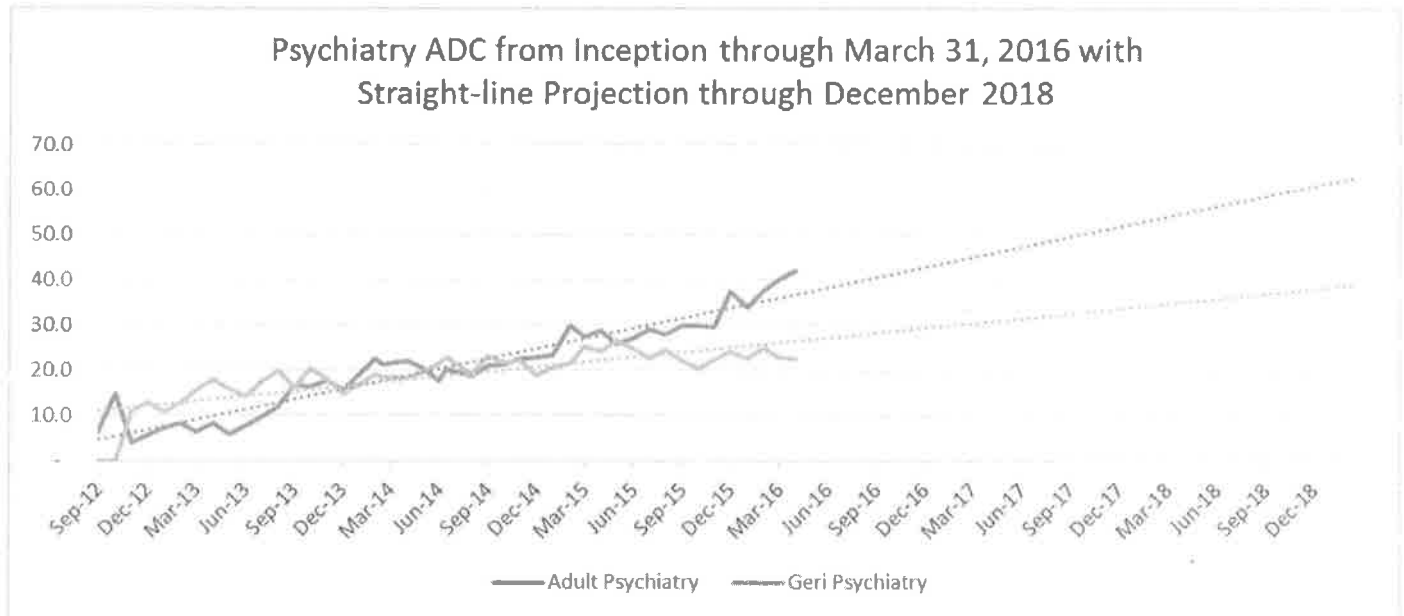
*Physical Medicine/Rehabilitation Average Daily Census from Inception through 03/31/2016.*



Medical Psychiatry/Detox Average Daily Census from Inception through 03/31/2016.

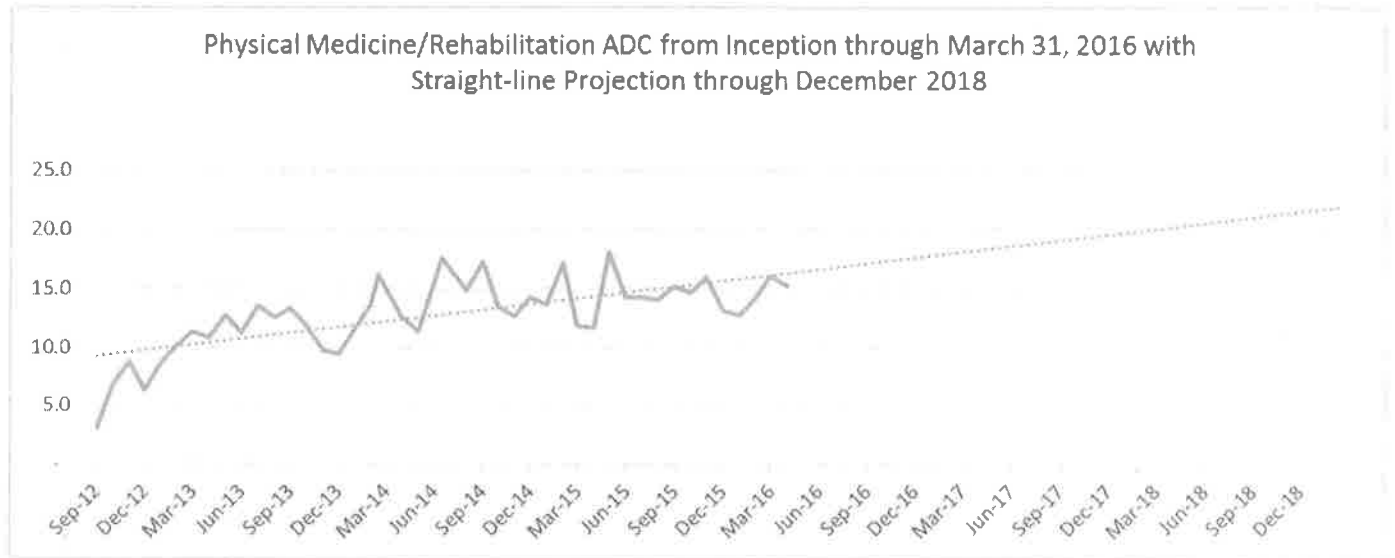


*Psychiatry Average Daily Census from Inception through 03/31/2016 with Straight-line Projection through 12/2018.*



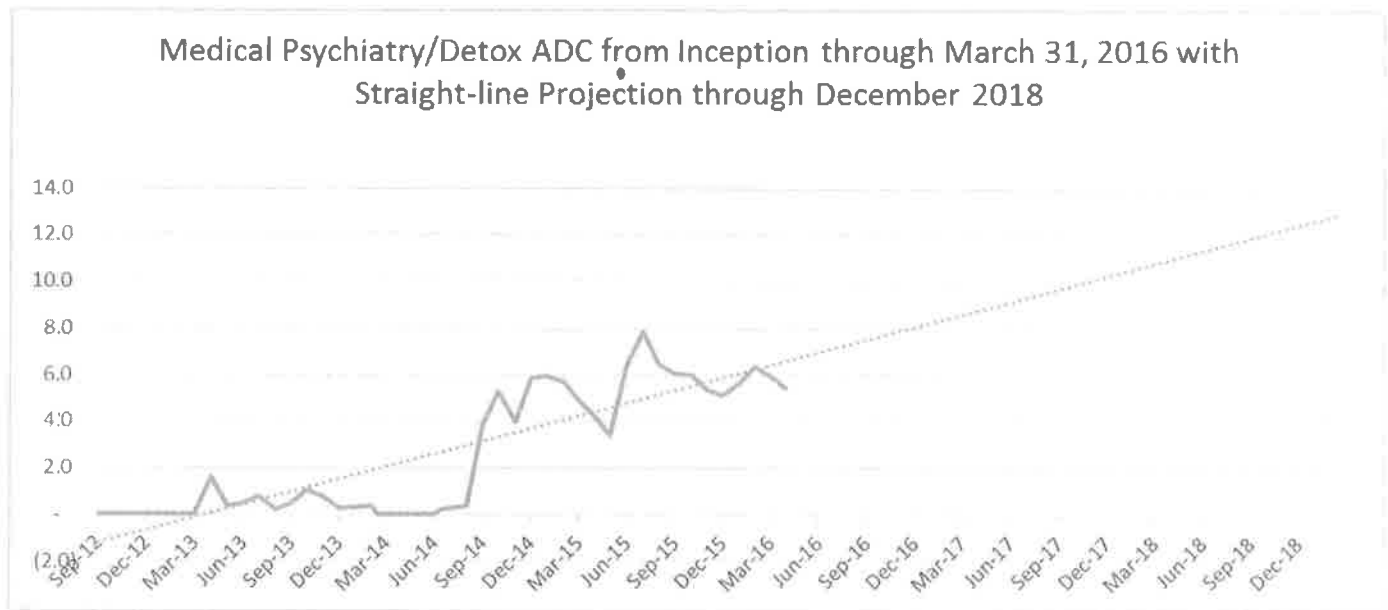


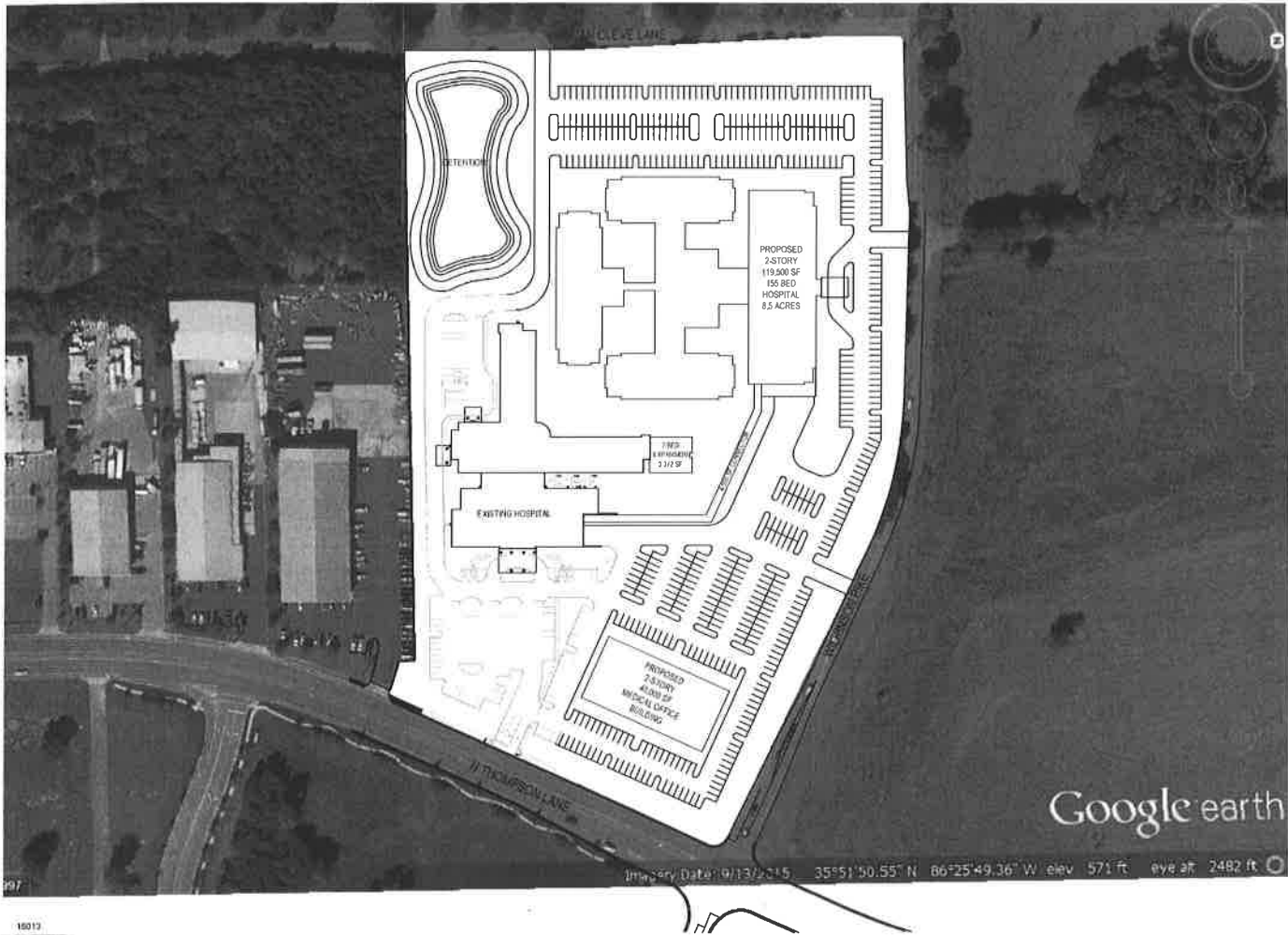
*Physical Medicine/Rehabilitation Average Daily Census from Inception through 03/31/2016 with  
Straight-line Projection through 12/2018.*



**ATTACHMENT B.II.C.21**

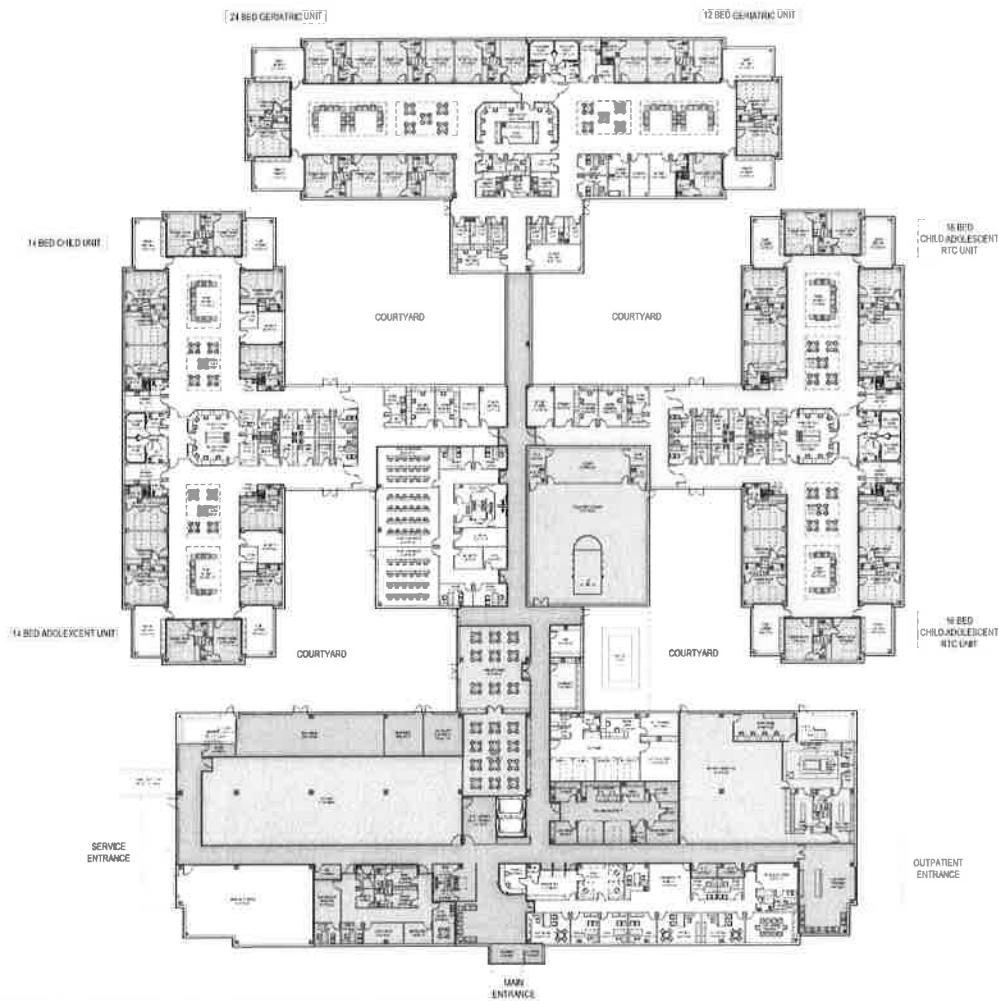
*Medical Psychiatry/Detox Average Daily Census from Inception through 03/31/2016 with  
Straight-line Projection through 12/2018.*

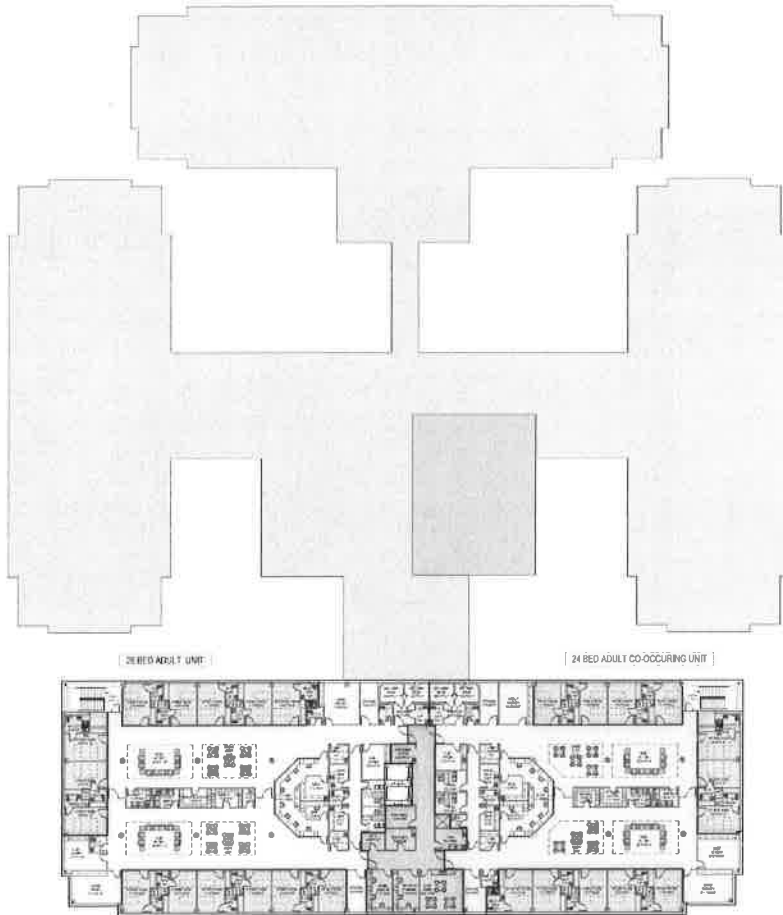


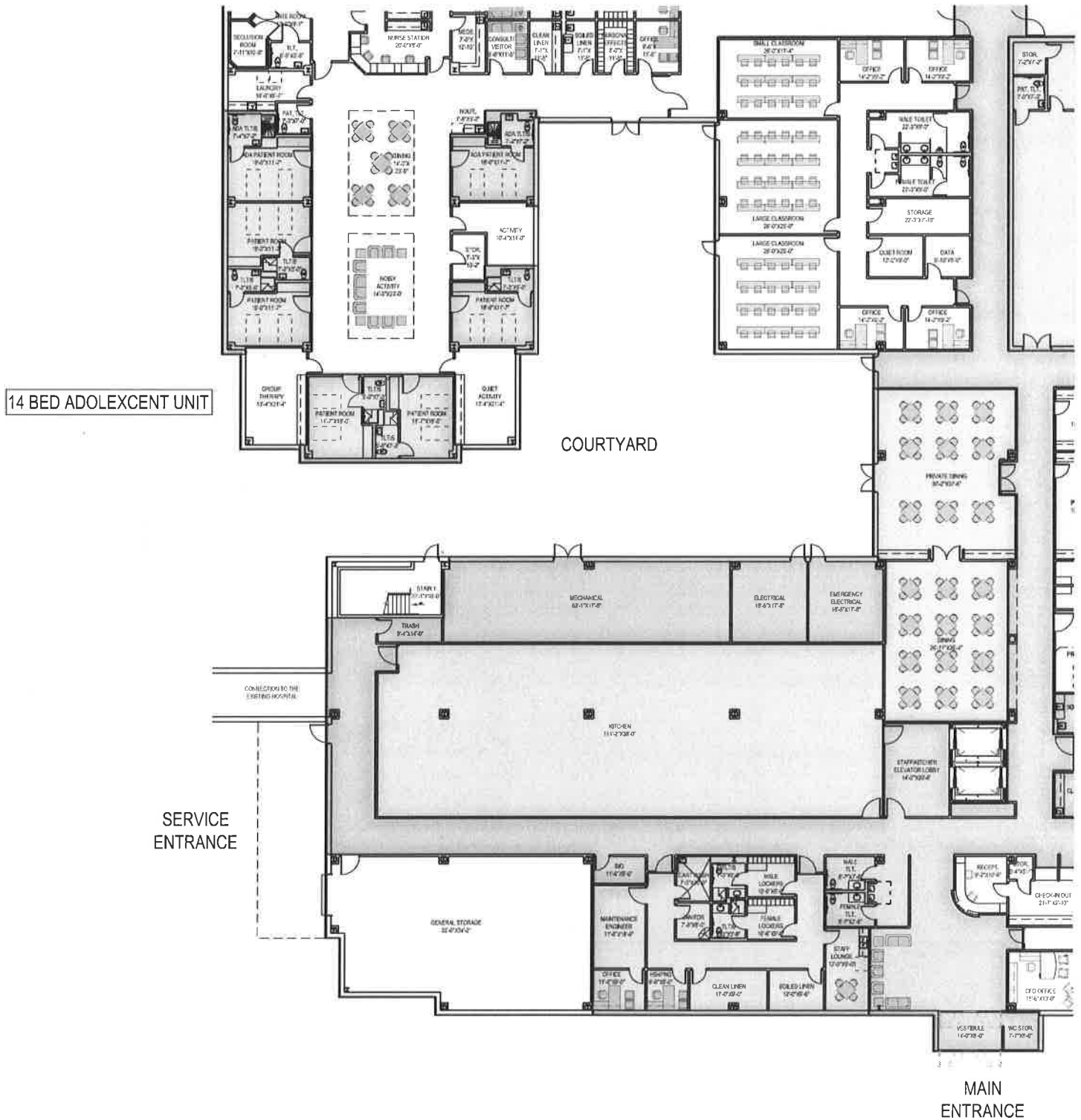


TRUSTPOINT HOSPITAL OF MURFREESBORO EXPANSION  
MURFREESBORO, TENNESSEE

CONCEPTUAL SITE PLAN



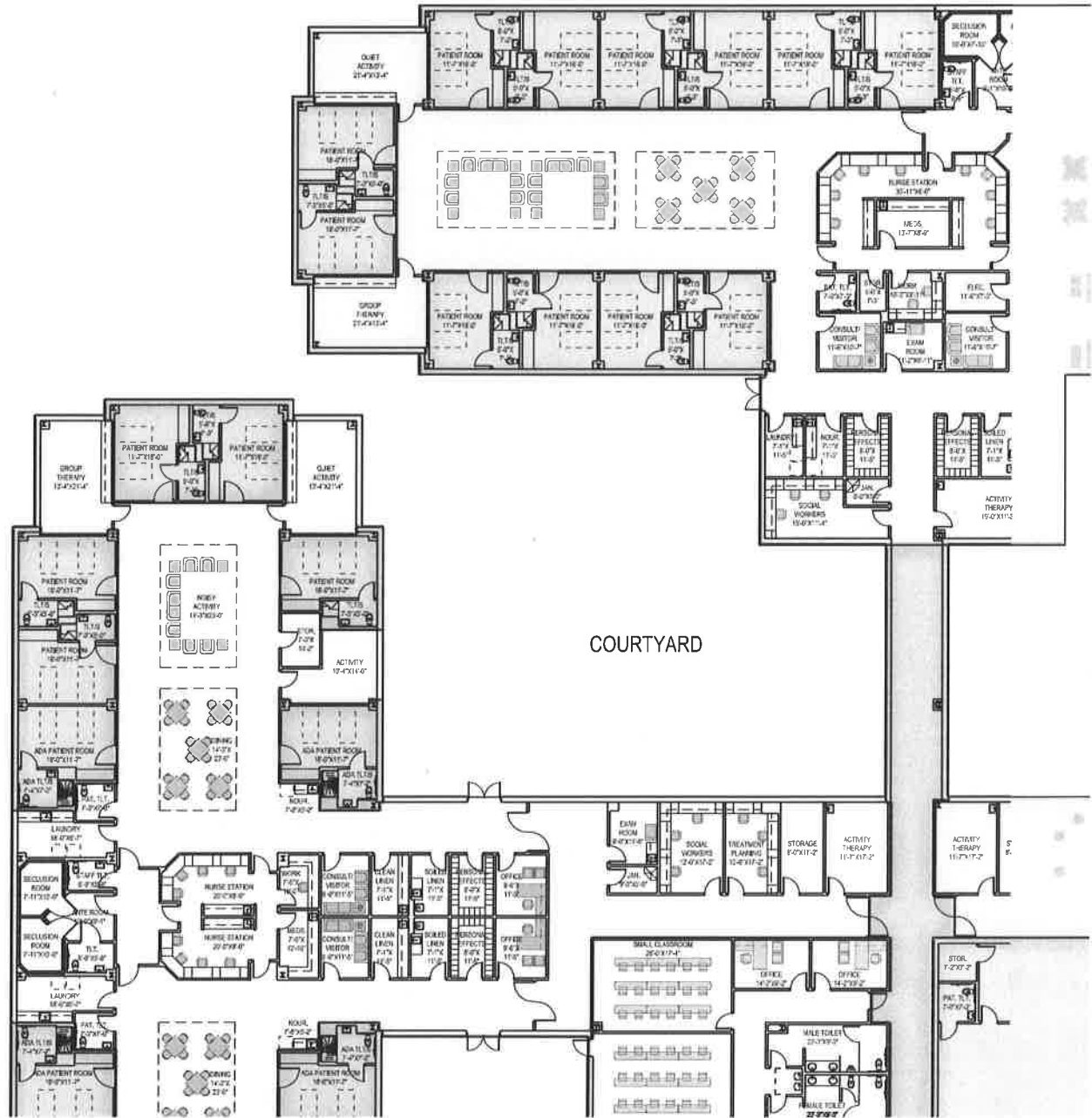






24 BED GERIATRIC UNIT

14 BED CHILD UNIT



16013



## 12 BED GERIATRIC UNIT



16 BED  
CHILD/ADOLESCENT  
RTC UNIT



24 BED ADULT CO-OCCURRING UNIT



16013

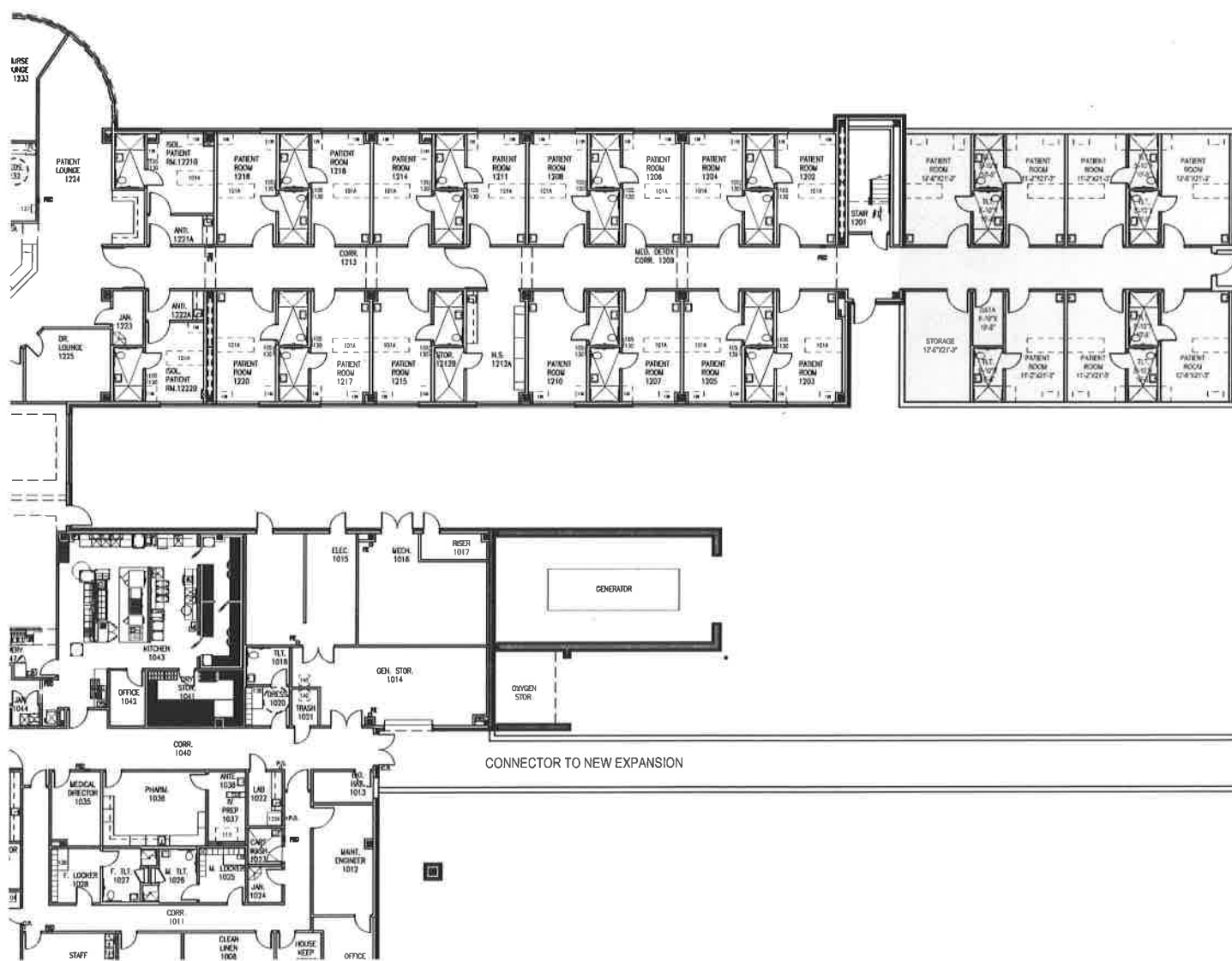


TRUSTPOINT HOSPITAL OF MURFREESBORO EXPANSION

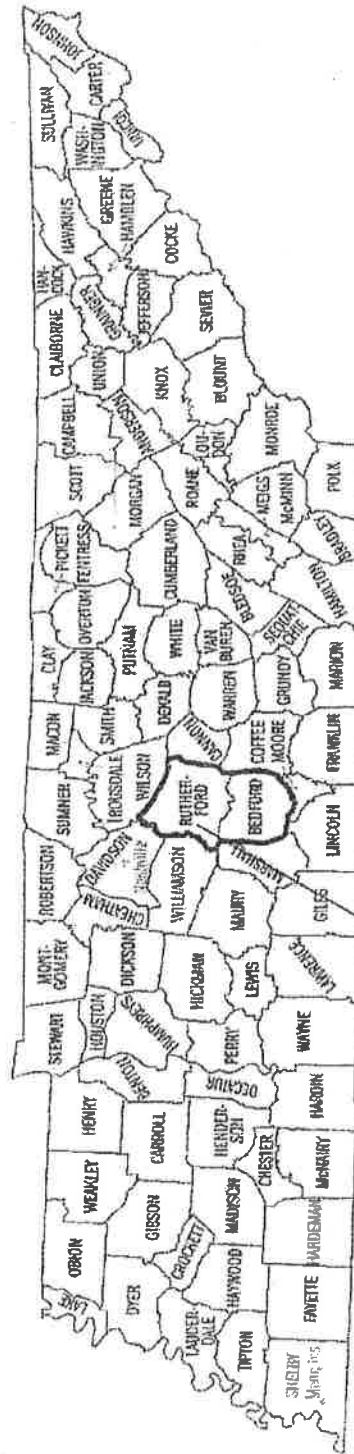
MURFREESBORO, TENNESSEE



EXISTING HOSPITAL ADDITION



Service Area  
Bedford and Rutherford Counties



Senior Health of Rutherford

6/14/2016

Tennessee

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## U.S. Census Quick Facts

## QuickFacts

## Tennessee

QuickFacts provides statistics for all states and counties, and for cities and towns with a population of 5,000 or more.


| All Topics ▼                                                                         | TENNESSEE |
|--------------------------------------------------------------------------------------|-----------|
| <b>People</b>                                                                        |           |
| <b>Population</b>                                                                    |           |
| Population estimates, July 1, 2015, (V2015)                                          | 6,600,299 |
| Population estimates, July 1, 2014, (V2014)                                          | 6,549,352 |
| Population estimates base, April 1, 2010, (V2015)                                    | 6,346,275 |
| Population estimates base, April 1, 2010, (V2014)                                    | 6,346,275 |
| Population, percent change - April 1, 2010 (estimates base) to July 1, 2015, (V2015) | 4.0%      |
| Population, percent change - April 1, 2010 (estimates base) to July 1, 2014, (V2014) | 3.2%      |
| Population, Census, April 1, 2010                                                    | 6,346,105 |
| <b>Age and Sex</b>                                                                   |           |
| Persons under 5 years, percent, July 1, 2014, (V2014)                                | 6.1%      |
| Persons under 5 years, percent, April 1, 2010                                        | 6.4%      |
| Persons under 18 years, percent, July 1, 2014, (V2014)                               | 22.8%     |
| Persons under 18 years, percent, April 1, 2010                                       | 23.6%     |
| Persons 65 years and over, percent, July 1, 2014, (V2014)                            | 15.1%     |
| Persons 65 years and over, percent, April 1, 2010                                    | 13.4%     |
| Female persons, percent, July 1, 2014, (V2014)                                       | 51.3%     |
| Female persons, percent, April 1, 2010                                               | 51.3%     |
| <b>Race and Hispanic Origin</b>                                                      |           |
| White alone, percent July 1, 2014, (V2014) (a)                                       | 78.9%     |
| White alone, percent, April 1, 2010 (a)                                              | 77.6%     |
| Black or African American alone, percent, July 1, 2014, (V2014) (a)                  | 17.1%     |
| Black or African American alone, percent, April 1, 2010 (a)                          | 16.7%     |
| American Indian and Alaska Native alone, percent, July 1, 2014, (V2014) (a)          | 0.4%      |
| American Indian and Alaska Native alone, percent, April 1, 2010 (a)                  | 0.3%      |

<http://www.census.gov/quickfacts/table/POP060210/47>

1/4

6/14/2016

Tennessee

|                                                                                        |                                                                                           |
|----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| Asian alone, percent, July 1, 2014, (V2014) (a)                                        | 1.7%                                                                                      |
| Asian alone, percent, April 1, 2010 (a)                                                | 1.4%                                                                                      |
| Native Hawaiian and Other Pacific Islander alone, percent, July 1, 2014, (V2014) (a)   | 0.1%                                                                                      |
| Native Hawaiian and Other Pacific Islander alone, percent, April 1, 2010 (a)           | 0.1%                                                                                      |
| Two or More Races, percent, July 1, 2014, (V2014)                                      | 1.7%                                                                                      |
| Two or More Races, percent, April 1, 2010                                              | 1.7%                                                                                      |
| Hispanic or Latino, percent, July 1, 2014, (V2014) (b)                                 | 5.0%                                                                                      |
| Hispanic or Latino, percent, April 1, 2010 (b)                                         | 4.6%                                                                                      |
| White alone, not Hispanic or Latino, percent, July 1, 2014, (V2014)                    | 74.6%                                                                                     |
| White alone, not Hispanic or Latino, percent, April 1, 2010                            | 75.6%                                                                                     |
| <b>Population Characteristics</b>                                                      |                                                                                           |
| Veterans, 2010-2014                                                                    | 471,819                                                                                   |
| Foreign born persons, percent, 2010-2014                                               | 4.7%                                                                                      |
| <b>Housing</b>                                                                         |                                                                                           |
| Housing units, July 1, 2015, (V2015)                                                   | 2,892,305                                                                                 |
| Housing units, April 1, 2010                                                           | 2,812,133                                                                                 |
| Owner-occupied housing unit rate, 2010-2014                                            | 67.1%                                                                                     |
| Median value of owner-occupied housing units, 2010-2014                                | \$139,900                                                                                 |
| Median selected monthly owner costs -with a mortgage, 2010-2014                        | \$1,197                                                                                   |
| Median selected monthly owner costs -without a mortgage, 2010-2014                     | \$359                                                                                     |
| Median gross rent, 2010-2014                                                           | \$757                                                                                     |
| Building permits, 2015                                                                 | 32,219                                                                                    |
| <b>Families and Living Arrangements</b>                                                |                                                                                           |
| Households, 2010-2014                                                                  | 2,487,349                                                                                 |
| Persons per household, 2010-2014                                                       | 2.53                                                                                      |
| Living in same house 1 year ago, percent of persons age 1 year+, 2010-2014             | 84.6%                                                                                     |
| Language other than English spoken at home, percent of persons age 5 years+, 2010-2014 | 6.8%                                                                                      |
| <b>Education</b>                                                                       |                                                                                           |
| High school graduate or higher, percent of persons age 25 years+, 2010-2014            | 84.9%                                                                                     |
| Bachelor's degree or higher, percent of persons age 25 years+, 2010-2014               | 24.4%                                                                                     |
| <b>Health</b>                                                                          |                                                                                           |
| With a disability, under age 65 years, percent, 2010-2014                              | 11.2%                                                                                     |
| Persons without health insurance, under age 65 years, percent                          |  14.1% |
| <b>Economy</b>                                                                         |                                                                                           |
| In civilian labor force, total, percent of population age 16 years+, 2010-2014         | 61.1%                                                                                     |
| In civilian labor force, female, percent of population age 16 years+, 2010-2014        | 56.4%                                                                                     |
| Total accommodation and food services sales, 2012 (\$1,000) (c)                        | 12,489,013                                                                                |
| Total health care and social assistance receipts/revenue, 2012 (\$1,000) (c)           | 42,383,683                                                                                |
| Total manufacturers shipments, 2012 (\$1,000) (c)                                      | 139,960,482                                                                               |
| Total merchant wholesaler sales, 2012 (\$1,000) (c)                                    | 111,718,421                                                                               |
| Total retail sales, 2012 (\$1,000) (c)                                                 | 91,641,605                                                                                |
| Total retail sales per capita, 2012 (c)                                                | \$14,194                                                                                  |
| <b>Transportation</b>                                                                  |                                                                                           |

<http://www.census.gov/quickfacts/table/POP060210/47>



6/14/2016

Tennessee

Mean travel time to work (minutes), workers age 16 years+, 2010-2014

24.4

**Income and Poverty**

Median household income (in 2014 dollars), 2010-2014

\$44,621

Per capita income in past 12 months (in 2014 dollars), 2010-2014

\$24,811

Persons in poverty, percent

▲ 18.3%

**Businesses**

Total employer establishments, 2014

131,504<sup>1</sup>

Total employment, 2014

2,453,470<sup>1</sup>

Total annual payroll, 2014

103,559,163<sup>1</sup>

Total employment, percent change, 2013-2014

2.5%<sup>1</sup>

Total nonemployer establishments, 2013

470,330

All firms, 2012

550,453

Men-owned firms, 2012

302,249

Women-owned firms, 2012

195,694

Minority-owned firms, 2012

105,234

Nonminority-owned firms, 2012

434,025

Veteran-owned firms, 2012

59,379

Nonveteran-owned firms, 2012

469,392

**Geography**

Population per square mile, 2010

153.9

Land area in square miles, 2010


41,234.90

FIPS Code

47

1. Includes data not distributed by county.

▲ This geographic level of poverty and health estimates are not comparable to other geographic levels of these estimates

Some estimates presented here come from sample data, and thus have sampling errors that may render some apparent differences between geographies statistically indistinguishable. Click the Quick Info  icon to the left of each row in TABLE view to learn about sampling error.

The vintage year (e.g., V2015) refers to the final year of the series (2010 thru 2015).

Different vintage years of estimates are not comparable.

(a) Includes persons reporting only one race

(b) Hispanics may be of any race, so also are included in applicable race categories

(c) Economic Census - Puerto Rico data are not comparable to U.S. Economic Census data

D Suppressed to avoid disclosure of confidential information

F Fewer than 25 firms

FN Footnote on this item in place of data

NA Not available

S Suppressed; does not meet publication standards

X Not applicable

Z Value greater than zero but less than half unit of measure shown

6/14/2016

Tennessee

QuickFacts data are derived from: Population Estimates, American Community Survey, Census of Population and Housing, Current Population Survey, Small Area Health Insurance Estimates, Small Area Income and Poverty Estimates, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits.

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Economic Census  
<http://www.census.gov/econ/census/>

E-Stats  
<http://www.census.gov/econ/estats/>

International Trade  
<http://www.census.gov/foreign-trade/>

Export Codes  
<http://www.census.gov/foreign-trade/schedules/b/>

NAICS  
<http://www.census.gov/eos/www/naics/>

Governments  
<http://www.census.gov/govs/>

Local Employment Dynamics  
<http://lehd.ces.census.gov/>

Survey of Business Owners  
<http://www.census.gov/econ/sbo/>

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2020 Census  
<http://www.census.gov/2020census/>

2010 Census  
<http://www.census.gov/2010census/>

American Community Survey  
<http://www.census.gov/programs-surveys/acs/>

Income  
<http://www.census.gov/hhes/www/income/>

Poverty  
<http://www.census.gov/hhes/www/poverty/>

Population Estimates  
<http://www.census.gov/popest/>

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<http://www.census.gov/population/international/>

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Statistical Abstract  
[http://www.census.gov/library/publications/2012/statistical\\_abstract.html](http://www.census.gov/library/publications/2012/statistical_abstract.html)

Special Census Program  
<http://www.census.gov/programs-surveys/specialcensus.html>

Household Linking Data  
<http://www.census.gov/about/adm/data-linkage.html>

Fraudulent Activity & Scams  
<http://www.census.gov/programs-surveys/are-you-in-a-survey/fraudulent-activity-and-scams.html>

Recovery Act  
<http://www.census.gov/recovery/>

BusinessUSA.gov  
<http://www.usa.gov/>  
<http://business.usa.gov/>

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Bedford County, Tennessee

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U.S. Census Quick Facts

## QuickFacts

### Bedford County, Tennessee

QuickFacts provides statistics for all states and counties, and for cities and towns with a population of 5,000 or more.

| All Topics ▼                                                                         | BEDFORD COUNTY,<br>TENNESSEE | TENNESSEE |
|--------------------------------------------------------------------------------------|------------------------------|-----------|
| <b>People</b>                                                                        |                              |           |
| <b>Population</b>                                                                    |                              |           |
| Population estimates, July 1, 2015, (V2015)                                          | 47,183                       | 6,600,299 |
| Population estimates, July 1, 2014, (V2014)                                          | 46,627                       | 6,549,352 |
| Population estimates base, April 1, 2010, (V2015)                                    | 45,058                       | 6,346,275 |
| Population estimates base, April 1, 2010, (V2014)                                    | 45,058                       | 6,346,275 |
| Population, percent change - April 1, 2010 (estimates base) to July 1, 2015, (V2015) | 4.7%                         | 4.0%      |
| Population, percent change - April 1, 2010 (estimates base) to July 1, 2014, (V2014) | 3.5%                         | 3.2%      |
| Population, Census, April 1, 2010                                                    | 45,058                       | 6,346,105 |
| <b>Age and Sex</b>                                                                   |                              |           |
| Persons under 5 years, percent, July 1, 2014, (V2014)                                | 6.7%                         | 6.1%      |
| Persons under 5 years, percent, April 1, 2010                                        | 7.6%                         | 6.4%      |
| Persons under 18 years, percent, July 1, 2014, (V2014)                               | 26.2%                        | 22.8%     |
| Persons under 18 years, percent, April 1, 2010                                       | 26.8%                        | 23.6%     |
| Persons 65 years and over, percent, July 1, 2014, (V2014)                            | 14.4%                        | 15.1%     |
| Persons 65 years and over, percent, April 1, 2010                                    | 12.9%                        | 13.4%     |
| Female persons, percent, July 1, 2014, (V2014)                                       | 50.9%                        | 51.3%     |
| Female persons, percent, April 1, 2010                                               | 50.4%                        | 51.3%     |
| <b>Race and Hispanic Origin</b>                                                      |                              |           |
| White alone, percent July 1, 2014, (V2014) (a)                                       | 87.2%                        | 78.9%     |
| White alone, percent, April 1, 2010 (a)                                              | 81.8%                        | 77.6%     |
| Black or African American alone, percent, July 1, 2014, (V2014) (a)                  | 8.3%                         | 17.1%     |
| Black or African American alone, percent, April 1, 2010 (a)                          | 7.9%                         | 16.7%     |

<http://www.census.gov/quickfacts/table/POP060210/47003,47>

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6/14/2016

Bedford County, Tennessee

|                                                                                        |           |           |
|----------------------------------------------------------------------------------------|-----------|-----------|
| American Indian and Alaska Native alone, percent, July 1, 2014, (V2014) (a)            | 1.2%      | 0.4%      |
| American Indian and Alaska Native alone, percent, April 1, 2010 (a)                    | 0.4%      | 0.3%      |
| Asian alone, percent, July 1, 2014, (V2014) (a)                                        | 1.3%      | 1.7%      |
| Asian alone, percent, April 1, 2010 (a)                                                | 0.8%      | 1.4%      |
| Native Hawaiian and Other Pacific Islander alone, percent, July 1, 2014, (V2014) (a)   | 0.2%      | 0.1%      |
| Native Hawaiian and Other Pacific Islander alone, percent, April 1, 2010 (a)           | 0.1%      | 0.1%      |
| Two or More Races, percent, July 1, 2014, (V2014)                                      | 1.9%      | 1.7%      |
| Two or More Races, percent, April 1, 2010                                              | 2.1%      | 1.7%      |
| Hispanic or Latino, percent, July 1, 2014, (V2014) (b)                                 | 11.7%     | 5.0%      |
| Hispanic or Latino, percent, April 1, 2010 (b)                                         | 11.3%     | 4.6%      |
| White alone, not Hispanic or Latino, percent, July 1, 2014, (V2014)                    | 77.6%     | 74.6%     |
| White alone, not Hispanic or Latino, percent, April 1, 2010                            | 78.5%     | 75.6%     |
| <b>Population Characteristics</b>                                                      |           |           |
| Veterans, 2010-2014                                                                    | 3,302     | 471,819   |
| Foreign born persons, percent, 2010-2014                                               | 7.5%      | 4.7%      |
| <b>Housing</b>                                                                         |           |           |
| Housing units, July 1, 2015, (V2015)                                                   | 18,676    | 2,892,305 |
| Housing units, April 1, 2010                                                           | 18,360    | 2,812,133 |
| Owner-occupied housing unit rate, 2010-2014                                            | 69.4%     | 67.1%     |
| Median value of owner-occupied housing units, 2010-2014                                | \$113,200 | \$139,900 |
| Median selected monthly owner costs -with a mortgage, 2010-2014                        | \$1,068   | \$1,197   |
| Median selected monthly owner costs -without a mortgage, 2010-2014                     | \$343     | \$359     |
| Median gross rent, 2010-2014                                                           | \$667     | \$757     |
| Building permits, 2015                                                                 | 161       | 32,219    |
| <b>Families and Living Arrangements</b>                                                |           |           |
| Households, 2010-2014                                                                  | 16,608    | 2,487,349 |
| Persons per household, 2010-2014                                                       | 2.72      | 2.53      |
| Living in same house 1 year ago, percent of persons age 1 year+, 2010-2014             | 86.1%     | 84.6%     |
| Language other than English spoken at home, percent of persons age 5 years+, 2010-2014 | 12.1%     | 6.8%      |
| <b>Education</b>                                                                       |           |           |
| High school graduate or higher, percent of persons age 25 years+, 2010-2014            | 78.1%     | 84.9%     |
| Bachelor's degree or higher, percent of persons age 25 years+, 2010-2014               | 13.3%     | 24.4%     |
| <b>Health</b>                                                                          |           |           |
| With a disability, under age 65 years, percent, 2010-2014                              | 11.2%     | 11.2%     |
| Persons without health insurance, under age 65 years, percent                          | ▲ 18.6%   | ▲ 14.1%   |
| <b>Economy</b>                                                                         |           |           |
| In civilian labor force, total, percent of population age 16 years+, 2010-             | 59.7%     | 61.1%     |

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Bedford County, Tennessee

2014

|                                                                                 |           |             |
|---------------------------------------------------------------------------------|-----------|-------------|
| In civilian labor force, female, percent of population age 16 years+, 2010-2014 | 54.1%     | 56.4%       |
| Total accommodation and food services sales, 2012 (\$1,000) (c)                 | 40,235    | 12,499,013  |
| Total health care and social assistance receipts/revenue, 2012 (\$1,000) (c)    | 86,753    | 42,383,683  |
| Total manufacturers shipments, 2012 (\$1,000) (c)                               | 1,121,363 | 139,960,482 |
| Total merchant wholesaler sales, 2012 (\$1,000) (c)                             | D         | 111,718,421 |
| Total retail sales, 2012 (\$1,000) (c)                                          | 407,587   | 91,641,605  |
| Total retail sales per capita, 2012 (c)                                         | \$8,944   | \$14,194    |

**Transportation**

|                                                                      |      |      |
|----------------------------------------------------------------------|------|------|
| Mean travel time to work (minutes), workers age 16 years+, 2010-2014 | 26.0 | 24.4 |
|----------------------------------------------------------------------|------|------|

**Income and Poverty**

|                                                                  |          |          |
|------------------------------------------------------------------|----------|----------|
| Median household income (in 2014 dollars), 2010-2014             | \$40,989 | \$44,621 |
| Per capita income in past 12 months (in 2014 dollars), 2010-2014 | \$19,855 | \$24,811 |
| Persons in poverty, percent                                      | 19.1%    | 18.3%    |

**Businesses**

|                                             |         |                          |
|---------------------------------------------|---------|--------------------------|
| Total employer establishments, 2014         | 761     | 131,504 <sup>1</sup>     |
| Total employment, 2014                      | 13,930  | 2,453,470 <sup>1</sup>   |
| Total annual payroll, 2014                  | 505,778 | 103,559,163 <sup>1</sup> |
| Total employment, percent change, 2013-2014 | 17.3%   | 2.5% <sup>1</sup>        |
| Total nonemployer establishments, 2013      | 2,856   | 470,330                  |
| All firms, 2012                             | 3,442   | 550,453                  |
| Men-owned firms, 2012                       | 1,724   | 302,249                  |
| Women-owned firms, 2012                     | 1,351   | 195,694                  |
| Minority-owned firms, 2012                  | 354     | 105,234                  |
| Nonminority-owned firms, 2012               | 2,960   | 434,025                  |
| Veteran-owned firms, 2012                   | 354     | 59,379                   |
| Nonveteran-owned firms, 2012                | 2,927   | 469,392                  |

**Geography**

|                                  |        |           |
|----------------------------------|--------|-----------|
| Population per square mile, 2010 | 95.1   | 153.9     |
| Land area in square miles, 2010  | 473.64 | 41,234.90 |
| FIPS Code                        | 47003  | 47        |

1. Includes data not distributed by county.

This geographic level of poverty and health estimates are not comparable to other geographic levels of these estimates

Some estimates presented here come from sample data, and thus have sampling errors that may render some apparent differences between geographies statistically indistinguishable. Click the Quick Info icon to the left of each row in TABLE view to learn about sampling error.

The vintage year (e.g., V2015) refers to the final year of the series (2010 thru 2015).  
Different vintage years of estimates are not comparable.

(a) Includes persons reporting only one race

(b) Hispanics may be of any race, so also are included in applicable race categories

(c) Economic Census - Puerto Rico data are not comparable to U.S. Economic Census data

D Suppressed to avoid disclosure of confidential information

F Fewer than 25 firms

FN Footnote on this item in place of data

NA Not available

S Suppressed; does not meet publication standards

X Not applicable

Z Value greater than zero but less than half unit of measure shown

QuickFacts data are derived from: Population Estimates, American Community Survey, Census of Population and Housing, Current Population Survey, Small Area Health Insurance Estimates, Small Area Income and Poverty Estimates, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits.

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## QuickFacts

## Rutherford County, Tennessee

QuickFacts provides statistics for all states and counties, and for cities and towns with a population of 5,000 or more.

| All Topics ▼                                                                         | RUTHERFORD<br>COUNTY,<br>TENNESSEE | BEDFORD<br>COUNTY,<br>TENNESSEE | TENNESSEE |
|--------------------------------------------------------------------------------------|------------------------------------|---------------------------------|-----------|
| <b>People</b>                                                                        |                                    |                                 |           |
| <b>Population</b>                                                                    |                                    |                                 |           |
| Population estimates, July 1, 2015, (V2015)                                          | 298,612                            | 47,183                          | 6,600,299 |
| Population estimates, July 1, 2014, (V2014)                                          | 288,906                            | 46,627                          | 6,549,352 |
| Population estimates base, April 1, 2010, (V2015)                                    | 262,604                            | 45,058                          | 6,346,275 |
| Population estimates base, April 1, 2010, (V2014)                                    | 262,604                            | 45,058                          | 6,346,275 |
| Population, percent change - April 1, 2010 (estimates base) to July 1, 2015, (V2015) | 13.7%                              | 4.7%                            | 4.0%      |
| Population, percent change - April 1, 2010 (estimates base) to July 1, 2014, (V2014) | 10.0%                              | 3.5%                            | 3.2%      |
| Population, Census, April 1, 2010                                                    | 262,604                            | 45,058                          | 6,346,105 |
| <b>Age and Sex</b>                                                                   |                                    |                                 |           |
| Persons under 5 years, percent, July 1, 2014, (V2014)                                | 6.5%                               | 6.7%                            | 6.1%      |
| Persons under 5 years, percent, April 1, 2010                                        | 7.3%                               | 7.6%                            | 6.4%      |
| Persons under 18 years, percent, July 1, 2014, (V2014)                               | 25.0%                              | 26.2%                           | 22.8%     |
| Persons under 18 years, percent, April 1, 2010                                       | 26.2%                              | 26.8%                           | 23.6%     |
| Persons 65 years and over, percent, July 1, 2014, (V2014)                            | 9.6%                               | 14.4%                           | 15.1%     |
| Persons 65 years and over, percent, April 1, 2010                                    | 8.2%                               | 12.9%                           | 13.4%     |
| Female persons, percent, July 1, 2014, (V2014)                                       | 50.7%                              | 50.9%                           | 51.3%     |
| Female persons, percent, April 1, 2010                                               | 50.6%                              | 50.4%                           | 51.3%     |
| <b>Race and Hispanic Origin</b>                                                      |                                    |                                 |           |
| White alone, percent July 1, 2014, (V2014) (a)                                       | 79.7%                              | 87.2%                           | 78.9%     |
| White alone, percent, April 1, 2010 (a)                                              | 78.2%                              | 81.8%                           | 77.6%     |
| Black or African American alone, percent, July 1, 2014, (V2014) (a)                  | 14.0%                              | 8.3%                            | 17.1%     |

<http://www.census.gov/quickfacts/table/POP060210/47149,47003,47>

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## Rutherford County, Tennessee

|                                                                                        |           |           |           |
|----------------------------------------------------------------------------------------|-----------|-----------|-----------|
| Black or African American alone, percent, April 1, 2010 (a)                            | 12.5%     | 7.9%      | 16.7%     |
| American Indian and Alaska Native alone, percent, July 1, 2014, (V2014) (a)            | 0.5%      | 1.2%      | 0.4%      |
| American Indian and Alaska Native alone, percent, April 1, 2010 (a)                    | 0.4%      | 0.4%      | 0.3%      |
| Asian alone, percent, July 1, 2014, (V2014) (a)                                        | 3.3%      | 1.3%      | 1.7%      |
| Asian alone, percent, April 1, 2010 (a)                                                | 3.0%      | 0.8%      | 1.4%      |
| Native Hawaiian and Other Pacific Islander alone, percent, July 1, 2014, (V2014) (a)   | 0.1%      | 0.2%      | 0.1%      |
| Native Hawaiian and Other Pacific Islander alone, percent, April 1, 2010 (a)           | 0.1%      | 0.1%      | 0.1%      |
| Two or More Races, percent, July 1, 2014, (V2014)                                      | 2.3%      | 1.9%      | 1.7%      |
| Two or More Races, percent, April 1, 2010                                              | 2.4%      | 2.1%      | 1.7%      |
| Hispanic or Latino, percent, July 1, 2014, (V2014) (b)                                 | 7.2%      | 11.7%     | 5.0%      |
| Hispanic or Latino, percent, April 1, 2010 (b)                                         | 6.7%      | 11.3%     | 4.6%      |
| White alone, not Hispanic or Latino, percent, July 1, 2014, (V2014)                    | 73.6%     | 77.6%     | 74.6%     |
| White alone, not Hispanic or Latino, percent, April 1, 2010                            | 75.6%     | 78.5%     | 75.6%     |
| <b>Population Characteristics</b>                                                      |           |           |           |
| Veterans, 2010-2014                                                                    | 18,734    | 3,302     | 471,819   |
| Foreign born persons, percent, 2010-2014                                               | 7.0%      | 7.5%      | 4.7%      |
| <b>Housing</b>                                                                         |           |           |           |
| Housing units, July 1, 2015, (V2015)                                                   | 112,105   | 18,676    | 2,892,305 |
| Housing units, April 1, 2010                                                           | 102,968   | 18,360    | 2,812,133 |
| Owner-occupied housing unit rate, 2010-2014                                            | 66.8%     | 69.4%     | 67.1%     |
| Median value of owner-occupied housing units, 2010-2014                                | \$157,400 | \$113,200 | \$139,900 |
| Median selected monthly owner costs -with a mortgage, 2010-2014                        | \$1,285   | \$1,068   | \$1,197   |
| Median selected monthly owner costs -without a mortgage, 2010-2014                     | \$391     | \$343     | \$359     |
| Median gross rent, 2010-2014                                                           | \$881     | \$667     | \$757     |
| Building permits, 2015                                                                 | 3,557     | 161       | 32,219    |
| <b>Families and Living Arrangements</b>                                                |           |           |           |
| Households, 2010-2014                                                                  | 98,454    | 16,608    | 2,487,349 |
| Persons per household, 2010-2014                                                       | 2.74      | 2.72      | 2.53      |
| Living in same house 1 year ago, percent of persons age 1 year+, 2010-2014             | 81.7%     | 86.1%     | 84.6%     |
| Language other than English spoken at home, percent of persons age 5 years+, 2010-2014 | 9.9%      | 12.1%     | 6.8%      |
| <b>Education</b>                                                                       |           |           |           |
| High school graduate or higher, percent of persons age 25 years+, 2010-2014            | 90.2%     | 78.1%     | 84.9%     |
| Bachelor's degree or higher, percent of persons age 25                                 | 28.9%     | 13.3%     | 24.4%     |



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Rutherford County, Tennessee

years+, 2010-2014

**Health**

|                                                               |         |         |         |
|---------------------------------------------------------------|---------|---------|---------|
| With a disability, under age 65 years, percent, 2010-2014     | 6.9%    | 11.2%   | 11.2%   |
| Persons without health insurance, under age 65 years, percent | ▲ 12.1% | ▲ 18.6% | ▲ 14.1% |

**Economy**

|                                                                                 |            |           |             |
|---------------------------------------------------------------------------------|------------|-----------|-------------|
| In civilian labor force, total, percent of population age 16 years+, 2010-2014  | 69.5%      | 59.7%     | 61.1%       |
| In civilian labor force, female, percent of population age 16 years+, 2010-2014 | 64.0%      | 54.1%     | 56.4%       |
| Total accommodation and food services sales, 2012 (\$1,000) (c)                 | 502,674    | 40,235    | 12,499,013  |
| Total health care and social assistance receipts/revenue, 2012 (\$1,000) (c)    | 1,376,642  | 86,753    | 42,383,683  |
| Total manufacturers shipments, 2012 (\$1,000) (c)                               | 11,538,970 | 1,121,363 | 139,960,482 |
| Total merchant wholesaler sales, 2012 (\$1,000) (c)                             | 14,847,012 | D         | 111,718,421 |
| Total retail sales, 2012 (\$1,000) (c)                                          | 3,515,344  | 407,587   | 91,641,605  |
| Total retail sales per capita, 2012 (c)                                         | \$12,808   | \$8,944   | \$14,194    |

**Transportation**

|                                                                      |      |      |      |
|----------------------------------------------------------------------|------|------|------|
| Mean travel time to work (minutes), workers age 16 years+, 2010-2014 | 27.7 | 26.0 | 24.4 |
|----------------------------------------------------------------------|------|------|------|

**Income and Poverty**

|                                                                  |          |          |          |
|------------------------------------------------------------------|----------|----------|----------|
| Median household income (in 2014 dollars), 2010-2014             | \$55,096 | \$40,989 | \$44,621 |
| Per capita income in past 12 months (in 2014 dollars), 2010-2014 | \$25,057 | \$19,855 | \$24,811 |
| Persons in poverty, percent                                      | ▲ 14.7%  | ▲ 19.1%  | ▲ 18.3%  |

**Businesses**

|                                             |           |         |                          |
|---------------------------------------------|-----------|---------|--------------------------|
| Total employer establishments, 2014         | 4,758     | 761     | 131,504 <sup>1</sup>     |
| Total employment, 2014                      | 101,022   | 13,930  | 2,453,470 <sup>1</sup>   |
| Total annual payroll, 2014                  | 4,111,114 | 505,778 | 103,559,163 <sup>1</sup> |
| Total employment, percent change, 2013-2014 | 5.0%      | 17.3%   | 2.5% <sup>1</sup>        |
| Total nonemployer establishments, 2013      | 18,296    | 2,856   | 470,330                  |
| All firms, 2012                             | 19,572    | 3,442   | 550,453                  |
| Men-owned firms, 2012                       | 10,847    | 1,724   | 302,249                  |
| Women-owned firms, 2012                     | 6,859     | 1,351   | 195,694                  |
| Minority-owned firms, 2012                  | 3,309     | 354     | 105,234                  |
| Nonminority-owned firms, 2012               | 15,640    | 2,960   | 434,025                  |
| Veteran-owned firms, 2012                   | 1,945     | 354     | 59,379                   |
| Nonveteran-owned firms, 2012                | 16,557    | 2,927   | 469,392                  |

**Geography**

|                                  |        |        |           |
|----------------------------------|--------|--------|-----------|
| Population per square mile, 2010 | 424.0  | 95.1   | 153.9     |
| Land area in square miles, 2010  | 619.36 | 473.64 | 41,234.90 |

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Rutherford County, Tennessee


FIPS Code


47149

47003

47

1. Includes data not distributed by county.

 This geographic level of poverty and health estimates are not comparable to other geographic levels of these estimates

Some estimates presented here come from sample data, and thus have sampling errors that may render some apparent differences between geographies statistically indistinguishable. Click the Quick Info  icon to the left of each row in TABLE view to learn about sampling error.

The vintage year (e.g., V2015) refers to the final year of the series (2010 thru 2015). Different vintage years of estimates are not comparable.

(a) Includes persons reporting only one race

(b) Hispanics may be of any race, so also are included in applicable race categories

(c) Economic Census - Puerto Rico data are not comparable to U.S. Economic Census data

D Suppressed to avoid disclosure of confidential information

F Fewer than 25 firms

FN Footnote on this item in place of data

NA Not available

S Suppressed; does not meet publication standards

X Not applicable

Z Value greater than zero but less than half unit of measure shown

QuickFacts data are derived from: Population Estimates, American Community Survey, Census of Population and Housing, Current Population Survey, Small Area Health Insurance Estimates, Small Area Income and Poverty Estimates, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits.

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Rutherford County, Tennessee

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U. S. Department of Health and Human Services  
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## Find Shortage Areas: MUA/P by State and County

[Shortage Designation Home](#)**Find Shortage Areas**[HPSA & MUA/P by Address](#)[HPSA by State & County](#)[HPSA Eligible for the Medicare Physician Bonus Payment](#)**Criteria:****State:** Tennessee**County:** Bedford County**ID #:** All**Results:** 1 records found.

| Name                 | ID#   | Type | Score | Designation Date | Update Date |
|----------------------|-------|------|-------|------------------|-------------|
| Bedford County       |       |      |       |                  |             |
| Bedford Service Area | 03173 | MUA  | 59.80 | 1978/11/01       |             |

NEW SEARCH

MODIFY SEARCH CRITERIA



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## Find Shortage Areas: MUA/P by State and County

[Shortage  
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Areas**[HPSA &  
MUA/P by  
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State &  
County](#)[HPSA  
Eligible for  
the  
Medicare  
Physician  
Bonus  
Payment](#)**Criteria:****State:** Tennessee**County:** Rutherford County**ID #:** All**Results:** 2 records found.

| Name                             | ID#   | Type | Score | Designation Date | Update Date |
|----------------------------------|-------|------|-------|------------------|-------------|
| Rutherford County                |       |      |       |                  |             |
| Christiana Division Service Area | 03259 | MUA  | 56.90 | 1994/05/12       |             |
| MCD (91100) District 6           |       |      |       |                  |             |

Global Commercial Banking  
Bank of America, N.A.

**Bank of America**  
**Merrill Lynch**

June 2, 2016

Health Services and Development Agency  
500 Deaderick Street, Suite 850  
Nashville, TN 37243

RE: Trustpoint Hospital, LLC

To whom it may concern:

This is to confirm that Acadia Healthcare Company, Inc., parent company of Trustpoint Hospital, LLC, has a \$300 million Revolving Credit Facility available for general corporate purposes including general corporate purposes of Trustpoint Hospital, LLC. Bank of America, N.A. serves as the Administrative Agent on the credit facility that is syndicated to several banks. As of May 31, 2016, the Revolving Credit Facility had in excess of \$57.3 million available to be drawn.

This letter is being delivered to you at the request of the company. Please note that the information set forth in this letter is subject to change without notice, and is provided in strict confidence to you for your own use only, without any responsibility, guarantee, commitment or liability on the part of Bank of America, N.A., its affiliates or any of its or its affiliates' directors, officers or employees. Bank of America, N.A. cannot provide any credit ratings or opinions of the creditworthiness of the Company and the above information does not constitute an opinion of Bank of America, N.A. of the Company's ability to successfully perform its obligations under any agreement it may enter into with you, Bank of America, N.A. or any other entity. Finally, Bank of America, N.A. undertakes no responsibility to update the information set forth in this letter.

Sincerely,



Mark Hardison  
Senior Vice President, Healthcare  
Global Commercial Banking  
Bank of America, NA  
(615) 749-3026  
[e.mark.hardison@baml.com](mailto:e.mark.hardison@baml.com)



**ATTACHMENT C.EF.5***Service Line charges, adjustments, and net revenue.*

| <b>Service Line</b>           | <b>Average of Charges PPD</b> | <b>Adjustments</b> | <b>Net Revenue</b> |
|-------------------------------|-------------------------------|--------------------|--------------------|
| Adult Psychiatry              | 1,475                         | 785                | 690                |
| Child & Adolescent Psychiatry | 1,500                         | 835                | 665                |
| Geriatric Psychiatry          | 1,578                         | 763                | 815                |
| Med Psych                     | 1,853                         | 1,128              | 725                |
| Physical Rehabilitation       | 3,348                         | 2,108              | 1,240              |

# Trustpoint Hospital, LLC

## Balance Sheet

### ASSETS December 31, 2015

#### Current Assets:

|                             |                  |
|-----------------------------|------------------|
| Cash                        | \$ 525,389       |
| Restricted Cash             | -                |
| Accounts receivable, net    | 3,940,141        |
| Due from Medicare           | 14,708           |
| Pre-paid expenses and other | 194,559          |
| Total Current Assets        | <u>4,674,797</u> |

#### Fixed Assets:

|                                |                  |
|--------------------------------|------------------|
| Equipment and furnishings      | 1,154,351        |
| Less: accumulated depreciation | <u>(279,212)</u> |
| Equipment and furnishings, net | 875,140          |

|                                |                    |
|--------------------------------|--------------------|
| Building                       | 20,163,828         |
| Less: accumulated depreciation | <u>(4,368,770)</u> |
| Building, net                  | 15,795,059         |

|                   |        |
|-------------------|--------|
| Intangible Assets | 50,186 |
|-------------------|--------|

|                     |                          |
|---------------------|--------------------------|
| <b>TOTAL ASSETS</b> | <b><u>21,395,181</u></b> |
|---------------------|--------------------------|

### LIABILITIES AND OWNERS' EQUITY

#### Current Liabilities:

|                           |                  |
|---------------------------|------------------|
| Accounts payable          | 1,826,725        |
| Accrued compensation      | 372,618          |
| Accrued taxes             | 227,347          |
| Intercompany payable, net | (9,304)          |
| AR-based Line of Credit   | 140,549          |
| Total Current Liabilities | <u>2,557,934</u> |

|                             |            |
|-----------------------------|------------|
| Total Long-term Liabilities | 19,533,092 |
|-----------------------------|------------|

#### Owners' Equity:

|                           |                    |
|---------------------------|--------------------|
| Contributions, net        | 1,918,252          |
| Accumulated retained loss | <u>(2,614,097)</u> |



|                      |           |
|----------------------|-----------|
| Total Owners' Equity | (695,845) |
|----------------------|-----------|

|                                     |                   |
|-------------------------------------|-------------------|
| <b>TOTAL LIABILITIES AND EQUITY</b> | <b>21,395,181</b> |
|-------------------------------------|-------------------|

---

## **Trustpoint Hospital, LLC**

### **Income Statement**

**2015**

#### **REVENUES:**

|                         |            |
|-------------------------|------------|
| Net In-patient revenues | 22,066,652 |
| Net Out-Patient Revenue | 773,807    |
| Net Physician Revenue   | 986,434    |
| Other revenues          | 509,359    |

|                       |                   |
|-----------------------|-------------------|
| <b>TOTAL REVENUES</b> | <b>24,336,252</b> |
|-----------------------|-------------------|

#### **EXPENSES:**

|                          |            |
|--------------------------|------------|
| Salaries and wages       | 11,070,083 |
| Benefits                 | 1,187,358  |
| Payroll Taxes            | 873,598    |
| Contract Labor           | 56,024     |
| Personnel subtotal       | 13,187,063 |
| Contract Services        | 2,601,725  |
| Supplies                 | 1,571,223  |
| Facilities               | 1,348,642  |
| Insurance                | 209,695    |
| Taxes                    | 347,423    |
| Other Operating Expenses | 746,359    |
| Interest                 | 1,503,180  |
| Depreciation             | 1,490,877  |

|                       |                   |
|-----------------------|-------------------|
| <b>TOTAL EXPENSES</b> | <b>23,006,187</b> |
|-----------------------|-------------------|

|                   |                  |
|-------------------|------------------|
| <b>NET INCOME</b> | <b>1,330,064</b> |
|-------------------|------------------|

PATIENT TRANSFER AGREEMENT

THIS PATIENT TRANSFER AGREEMENT (this "Agreement") is made as of March 5, 2012 by and between **MIDDLE TENNESSEE MEDICAL CENTER, INC.** ("Hospital") and **SENIORHEALTH OF RUTHERFORD, LLC d/b/a TrustPoint Hospital** ("Transferor").

**RECITALS:**

A. Hospital and Transferor each operate health care entities located in Middle Tennessee.

B. The parties desire to assure a continuity of care and appropriate medical treatment for the needs of each patient in their respective facilities, and have determined that, in the interest of patient care, the parties should enter into an agreement to provide for the transfer of patients from Transferor to Hospital on the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows.

1. Term and Termination.

(a) The Agreement shall have a two (2) year term commencing on **August 1, 2012** (the "Initial Term"). Upon the expiration of the Initial Term, this Agreement shall automatically renew for up to three additional one-year renewal terms ("Renewal Term") unless either party provides written notice of its intent not to renew to the other party at least sixty (60) days prior to the end of the then current term (the Initial Term and any Renewal Terms are collectively referred to herein as the "Term").

(b) This Agreement may be terminated by either party:

- (i) upon ninety (90) days prior written notice to the other party, or
- (ii) immediately should the other party fail to maintain the licenses, certifications or accreditations, including Medicare certification, required to operate its facility as it is currently being operated.

2. Transfer.

(a) Upon such time that a patient's physician determines that the patient needs to be transferred from Transferor to Hospital pursuant to Transferor's physician's order, Hospital agrees to admit the patient as promptly as possible and provide healthcare services as necessary, provided all conditions of eligibility are met. Transferor agrees to send the following with each patient at the time of transfer, or as soon thereafter as possible in emergency situations:

- (i) an abstract of pertinent medical and other information necessary to continue the patient's treatment without interruption; and
- (ii) essential identifying and administrative information.

- (b) Transferor shall also perform the following:
  - (i) notify Hospital of the impending transfer;
  - (ii) receive confirmation that Hospital can accept the patient, and that a Hospital medical staff physician has done so;
  - (iii) obtain patient's consent to the transfer; and
  - (iv) arrange for the transportation of the patient, including mode of transportation and the provision of one or more health care practitioners as necessary.

3. Relationship of the Parties.

(a) Nothing in this Agreement shall in any way affect the autonomy of either party. Each party shall have exclusive control of its management, assets and affairs. Neither party assumes any liability for the debts or obligations of the other party.

(b) Neither party shall be responsible, financially or otherwise, for the care and treatment of any patient while that patient is admitted to, or is under the care of, the other party's facility.

(c) Each party may contract or affiliate with other facilities during the term of this Agreement.

4. EMTALA. The parties agree that any patient transfers made pursuant to this Agreement shall be in compliance with 42 U.S.C. § 1395dd, et seq. and any amendments thereto ("EMTALA"), EMTALA's implementing regulations, such other requirements as may be imposed by the Secretary of Health and Human Services, and any other applicable Federal or State patient transfer laws.

5. Indemnification. Transferor agrees to indemnify, defend and hold Hospital, its officers, trustees, employees and agents harmless, to the extent permitted by applicable law, from or against any loss, injury, damage or liability incurred by reason of any act or failure to act by Transferor, its officers, employees or agents in connection with the performance of this Agreement.

Hospital agrees to indemnify, defend and hold Transferor, its officers, employees and agents harmless, to the extent permitted by applicable law, from or against any loss, injury, damages or liability incurred by reason of any act or failure to act by Hospital, its officers, trustees, employees and agents in connection with the performance of this Agreement.

6. Compliance. In compliance with federal law, including the provisions of Title IX of the Education Amendments of 1972, Section 503 and 504 of the Rehabilitation Act of 1973, the Age Discrimination in Employment Act of 1967 and 1975 and the Americans with Disabilities Act of 1990, and Title VI of the Civil Rights Act of 1964 each party hereto will not discriminate on the basis of race, sex, religion, color, national or ethnic origin, age, disability, or military service, AIDS and AIDS related conditions in its administration of its policies, including admissions policies, employment, or program activities.

7. Record Availability. Transferor agrees that, until the expiration of four (4) years after the furnishing of any goods and services pursuant to this Agreement, it will make available, upon written

request of the Secretary of Health and Human Services or the Comptroller General of the United States or any of their duly authorized representatives, copies of this Agreement and any books, documents, records and other data of Transferor that are necessary to certify the nature and extent of the costs incurred by Hospital in purchasing such goods and services. If Transferor carries out any of its duties under this Agreement through a subcontract with a related organization involving a value or cost of ten thousand dollars (\$10,000) or more over a twelve-month period, Transferor will cause such subcontract to contain a clause to the effect that, until the expiration of four (4) years after the furnishing of any good or service pursuant to said contract, the related organization will make available upon written request of the Secretary of Health and Human Services or the Comptroller General of the United States or any of their duly authorized representatives, copies of this Agreement and any books, documents, records and other data of said related organization that are necessary to certify the nature and extent of costs incurred by Transferor for such goods or services. Transferor shall give Hospital notice immediately upon receipt of any request from the Secretary of Health and Human Services or the Comptroller General of the United States or any of their duly authorized representatives for disclosure of such information.

Transferor agrees to indemnify, defend and hold Hospital harmless from and against any loss, liability, judgment, penalty, fine, damages (including punitive and/or compounded damages), costs (including reasonable attorneys' fees and expenses) suffered or incurred by Hospital as a result of, in connection with, or arising from Transferor's failure to comply with this Section 6.

8. Exclusion from Federal Health Care Programs. Transferor represents and warrants that it has not been nor is it about to be excluded from participation in any Federal Healthcare Program. Transferor agrees to notify Hospital within one (1) business day of Transferor's receipt of a notice of intent to exclude or actual notice of exclusion from any such program. The listing of Transferor or any Transferor-owned subsidiary on the Office of Inspector General's exclusion list (OIG website) or the General Services Administration's Lists of Parties Excluded from Federal Procurement and Nonprocurement Programs (GSA website) for excluded individuals and entities shall constitute "exclusion" for purposes of this paragraph. In the event that Transferor is excluded from any Federal Healthcare Program, this Agreement shall immediately terminate. For the purposes of this paragraph, the term "Federal Healthcare Program" means the Medicare program, the Medicaid program, the Maternal and Child Health Services Block Grant program, the Block Grants for State for Social Services program, any state Children's Health Insurance program, or any similar program. Further, Transferor agrees to indemnify and hold Hospital harmless from and against any loss, liability, judgment, penalty, fine, damages (including punitive and/or compounded damages), costs (including reasonable attorneys' fees and expenses) incurred by Hospital as a result of Transferor's failure to notify the Hospital of its exclusion from any Federal Healthcare Program.

9. Corporate Compliance. Hospital has in place a Corporate Responsibility Plan, which has as its goal to ensure that Hospital complies with federal, state and local laws and regulations. The plan focuses on risk management, the promotion of good corporate citizenship, including a commitment to uphold a high standard of ethical and legal business practices, and the prevention of misconduct. Transferor acknowledges Hospital's commitment to corporate responsibility. Transferor agrees to conduct its business transactions with Hospital in accordance with the principles of good corporate citizenship and a high standard of ethical and legal business practices.

#### 10. Miscellaneous.

(a) The parties agree to provide each other with information regarding the resources each has available and the type of patients or health conditions that each is able to accept.

(b) Neither party shall use the name of the other in any promotional or advertising material unless the other party has been given the opportunity to review the material and prior written approval for the material and its use has been obtained.

(c) This Agreement supersedes all prior agreements, whether written or oral, between the parties with respect to its subject matter and constitutes a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended, supplemented, or otherwise modified except by a written agreement executed by the party to be charged with the amendment.

(d) If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

(e) This Agreement shall be governed by and construed and enforced in accordance with the laws and in the courts of the State of Tennessee.

(f) Hospital may assign this Agreement, without the consent of Transferor, to an entity that directly or indirectly controls, is controlled by, or is under common control with, Hospital. For the purposes of this paragraph, the terms "control" means, with respect to a person, the authority, directly or indirectly, to (i) act as controlling member, shareholder or partner or such person, (ii) appoint, elect or approve at least a majority of the individual members, shareholders or partners of such person, or (iii) appoint, elect or approve at least a majority of the governing body of such person. Except as set forth above, neither party may assign this Agreement or any obligation hereunder without first obtaining the written consent of the other party. Any attempted delegation or assigning in violation of this paragraph shall be null and void. Subject to the foregoing, this Agreement shall be binding on and inure to the benefit of the parties and their respective heirs, administrators, successors and permitted assigns. Nothing expressed or referred to in this Agreement will be construed to give any person other than the parties to this Agreement any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement, except such rights as shall inure to a successor or permitted assignee pursuant to this paragraph.

(g) In the event that any legal action or other proceedings, including arbitration, is brought for the enforcement of this Agreement or because of an alleged dispute of breach, the prevailing party shall be awarded its costs of suit and reasonable attorney's fees.

(h) All notices, consents, waivers and other communications required or permitted by this Agreement shall be in writing and shall be deemed given to a party when (a) delivered to the appropriate address by hand or by nationally recognized overnight courier service (costs prepaid); or (b) received or rejected by the addressee, if sent by certified mail, return receipt requested, in each case to the following addresses and marked to the attention of the person (by name or title) designated below (or to such other address or person as a party may designate by notice to the other parties):

|                 |                                                                                                |
|-----------------|------------------------------------------------------------------------------------------------|
| If to Hospital: | Middle Tennessee Medical Center, Inc.<br>1700 Medical Center Parkway<br>Murfreesboro, TN 37129 |
|-----------------|------------------------------------------------------------------------------------------------|

With a copy to: Saint Thomas Health  
102 Woodmont Blvd., Suite 700  
Nashville, TN 37205  
Attn: Contract Administration

If to Transferor: SeniorHealth of Rutherford, LLC  
TrustPoint Hospital  
1009 North Thompson Lane  
Murfreesboro, TN 37129

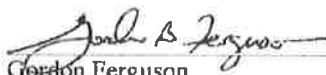
(i) The headings of the various sections of this Agreement are inserted merely for convenience and do not expressly or by implication limit, define or extend the specific terms of the sections so designated. Any rule of construction or interpretation otherwise requiring this Agreement to be construed or interpreted against any party shall not apply to any construction or interpretation hereof.

(j) This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for all purposes.

IN WITNESS WHEREOF, the parties have executed this Patient Transfer Agreement as of the date first above written.


**HOSPITAL:**

**Middle Tennessee Medical Center, Inc.**

By:   
Name: Gordon Ferguson  
Title: President & CEO

**TRANSFEROR:**

**SeniorHealth of Rutherford, LLC d/b/a TrustPoint Hospital**

By:   
Name: Kevin D. Lee  
Title: President

# MUTUAL AID MEMORANDUM OF UNDERSTANDING

## I. Introduction and Background

Healthcare facilities located within Tennessee are susceptible to a man-made or natural disaster that could exceed the resources of any one individual facility. Disasters can result from incidents generating an overwhelming number of patients, or smaller groups of patients whose specialized medical requirements exceed the resources of the impacted facility (e.g., hazmat injuries, pulmonary, trauma surgery, etc.), or from incidents such as building or plant problems, natural disasters, terrorist acts, bomb threats, etc., that impact a facility's operational capability.

## II. Purpose of Mutual Aid Memorandum of Understanding

The purpose of this mutual aid agreement is to assist Rolling Hills Hospital (2014 Quail Hollow Circle, Franklin, TN 37067) and Trust Point Hospital of Murfreesboro (1009 North Thompson Lane, Murfreesboro, TN, 37129) (hereafter "the Parties" or "healthcare facilities") achieve an effective level of disaster medical preparedness by detailing in advance the voluntary exchange of personnel, pharmaceuticals, supplies, equipment, and/or information. In addition, the MOU will serve to potentiate the Parties' desire to assist each other to the extent practical with transfer and receipt of patients in the event a facility is rendered incapable of patient care and must relocate its patients. This Mutual Aid Memorandum of Understanding (MOU) is a voluntary agreement between the Parties. **It is understood that this MOU is not a legally binding document, but rather signifies the belief and commitment of the Parties that in a disaster, whether natural or man-made, the medical needs of the community will be best met if they cooperate and coordinate their response efforts.**

This MOU is intended to enhance, not replace, the Parties' disaster program and emergency operations plan. Each Party has the responsibility for maintaining its own emergency management plan that includes, at a minimum, provisions for the care of patients in an emergency or disaster situation, maintenance of disaster equipment, appropriate training of staff and the implementation of an internal incident command system based on the principles of the National Incident Management System and the Incident Command System.

## III. Definition of Terms

**Command Center:** An area established within a healthcare facility during an emergency that is the facility's primary source of administrative authority and decision-making.

**Donor Healthcare Facility:** The healthcare facility that provides personnel, pharmaceuticals, supplies, equipment, and/or information to the Emergency Operations Center (EOC) or a facility experiencing a medical disaster.

**Impacted Healthcare Facility:** A healthcare facility that has exceeded its capability to manage a disaster with its own internal resources. This is also referred to as the recipient healthcare facility when pharmaceuticals, supplies, equipment, and/or information are requested or as the patient transferring healthcare facility when the evacuation of patients is required.

**Medical Disaster:** An event that a facility cannot appropriately resolve solely by using its own resources and may involve temporarily utilizing medical and support personnel, pharmaceuticals, supplies, or equipment, and/or information from another facility. This type of event may also necessitate the need for transport of patients to other participating healthcare facilities.



## MUTUAL AID MEMORANDUM OF UNDERSTANDING

**Emergency Operations Center (EOC):** A communication center with network capabilities allowing for the immediate determination of available healthcare facility resources at the time of a disaster. The EOC is operational 24-hours a day and requires daily maintenance. The EOC may assume a command/control function during a disaster. Logistics coordinated by the EOC include identifying the number and specific location where personnel, pharmaceuticals, supplies, equipment, patients, and/or information should be sent, how to enter the security perimeter; estimated time interval between arrivals and estimated return dates of borrowed supplies, etc.

**Patient Accepting Healthcare Facility:** The healthcare facility that accepts transferred patients from a facility Healthcare Facility: experiencing a medical disaster. When patients are evacuated, the receiving facility is referred to as the patient accepting healthcare facility.

**Patient Transferring Healthcare Facility:** The healthcare facility that evacuates patients to a Patient Accepting Healthcare Facility in response to a medical disaster.

**Recipient Healthcare Facility:** The healthcare facility that receives personnel or materials from another facility when evacuating and/or transferring patients during a medical Disaster.  
**Alternate Care Site (ACS):** A location designated by the patient transferring healthcare facility or local/state/federal Emergency Management officials where patients will be sent for treatment and/or observation should the disaster overwhelm capacity of participating healthcare facilities of this MOU.

### IV. General Terms of this Agreement

1. **Agreement to Share Resources:** To the best of their ability, each Party agrees to share the following resources during a disaster: Personnel (that have been appropriately credentialed); Equipment; Supplies; Pharmaceuticals; and Information.
2. **Implementation of Mutual Aid Memorandum of Understanding:** Only the Incident Commander at each healthcare facility has the authority to begin implementing the Mutual Aid MOU. The Healthcare Facility's Incident Commander or designee is responsible for requesting personnel, pharmaceuticals, supplies, equipment, information or authorizing the evacuation of patients. The healthcare facility's Incident Commander or designee will coordinate, both internally and with the donor/patient-accepting healthcare facility, all of the logistics involved in implementing this Mutual Aid MOU.
3. **Alternate Care Site:** Each healthcare facility agrees to assist in the operations of alternate care sites as a regional medical response.
4. **Patient Information:** During disasters each healthcare facility agrees to provide relevant patient information as necessary to assist with the public health function response.

### V. Transfer/Evacuation of Patients

1. This MOU is entered into by and between the Parties to set forth guidelines under which each facility will transfer or accept patients in the event of a partial or total facility evacuation in an emergency situation. Evacuation of any of the participating healthcare facilities would occur only in extreme emergencies, which would render the healthcare facility or a portion of the healthcare facility unusable for patient care. (Examples of such situations requiring evacuation and transfer

## MUTUAL AID MEMORANDUM OF UNDERSTANDING

of patients to other healthcare facilities would include but not be limited to a major fire, building damage, environmental hazard, etc.)

2. If an emergency incident or disaster occurs that forces a partial or complete evacuation of one of the signatory health care facilities, the other signatory health care facility agrees to participate in the distribution of patients from the affected facility, even if this requires activating emergency response plans at the receiving facility. In order to aid this voluntary cooperative effort, the signatories agree in principle to the following procedures:
  - a. Subject to medical capability and space availability, each healthcare facility agrees to accept a transferring facility's emergent patients in the event of an emergency evacuation.
  - b. The receiving healthcare facility will provide applicable medically necessary healthcare services as may be required by patients transported to the receiving healthcare facility. Each of the healthcare facilities will follow its standard procedures for admission of patients and its standard protocols for providing care to patients.
  - c. The transferring healthcare facility will be responsible for arranging for transportation of any evacuated patients to the receiving healthcare facility. The transferring healthcare facility is responsible for arranging transportation of patients from the receiving facility back to the originating facility.
  - d. The transferring healthcare facility will provide the receiving healthcare facility with as much advance notice as possible of any patients requiring evacuation to a receiving healthcare facility.
  - e. The transferring healthcare facility will send to the receiving healthcare facility at the time of transfer such identifying administrative medical and related information as may be necessary for the proper care of the transferred patient.
  - f. The transferring healthcare facility will send with each patient at the time of transfer (or as soon thereafter as possible) all of the patient's personal effects and any information relevant thereto. In the event that the personal effects cannot be sent with an alert and competent patient, the transferring healthcare facility may elect to secure such personal effects until the crisis is over. The transferring healthcare facility will remain responsible for such items until receipt thereof is acknowledged by the receiving healthcare facility.
  - g. This MOU does not require a transferring healthcare facility to transfer patients to any healthcare facility. The transferring healthcare facility may transfer patients to facilities other than the signatory healthcare facilities.
  - h. The receiving healthcare facility may discharge patients in accordance with its standard processes.
  - i. The transferring healthcare facility agrees to readmit patients when capability and capacity are restored at the transferring healthcare facility. The receiving healthcare facility agrees to transfer the patients back to the transferring healthcare facility upon such notification.

### VI. Transfer of Pharmaceuticals, Supplies or Equipment

1. In the event that needed supplies are in surplus at one of the signatory health care facilities and lacking at another, the signatory health care facility with the surplus will share supplies to help ensure patients in the region receive necessary treatment during a disaster.
2. The Incident Commander or designee of the recipient facility must authorize the request for pharmaceuticals, supplies or equipment. The request for the transfer of pharmaceuticals, supplies, or equipment initially can be made verbally to the Incident Commander or designee of

## **MUTUAL AID MEMORANDUM OF UNDERSTANDING**

the donor healthcare facility. The request must be followed up with written documentation before pharmaceuticals, supplies or equipment will be released or verbal communication in the event of a technological failure and this will be followed by a written requisition form at the earliest possible time and prior to demobilization.

3. The recipient healthcare facility will identify to the donor healthcare facility the following:
  - a. The quantity and exact type of requested items.
  - b. An estimate of how quickly the requested items are needed.
  - c. Estimated time period for which reusable supplies or equipment will be needed.
  - d. Location to which, and to whom, the items should be delivered.
  - e. Transportation method.
4. The recipient healthcare facility will identify how long it will take them to fulfill the request. The receipt of supplies, equipment, and pharmaceuticals will be the responsibility of a designated individual within the recipient healthcare facility. The recipient healthcare facility's designee will confirm the receipt of the material resources. The documentation will detail the following:
  - a. The items delivered.
  - b. The condition of the equipment received (if applicable).
  - c. The recipient healthcare facility's contact person for durable medical equipment or reusable supplies.
5. The recipient facility is responsible for tracking the borrowed inventory and is responsible for appropriate use and maintenance of all borrowed pharmaceuticals, supplies, or equipment.
6. The recipient healthcare facility is responsible for the cleaning, maintenance, and prompt return of the borrowed equipment to the donor healthcare facility. It is expected that the equipment will be returned in good working order. Once the equipment is no longer in use, or upon resumption of normal operations, every reasonable effort will be made to replace the borrowed equipment or return it to the donor healthcare facility in a timeframe that is acceptable to both institutions.

### **VII. Loaning Patient Care Staff**

In an emergency incident or disaster, when patient care staff is in surplus at one of the signatory health care facilities and lacking at the other, the signatory health care facility with the surplus will make all reasonable efforts to share staff to help ensure that the available health care facility beds are adequately staffed during a disaster. Personnel who are dispatched to the affected facility shall be limited to staff who are certified, licensed, privileged and/or credentialed at the assisting facility, as appropriate, given such staffs' professional scope of practice.

### **VIII. Payment for Supplies, Transportation, Staff and Equipment**

The recipient healthcare facility will assume responsibility for the supplies, transportation, staff and equipment from the donor healthcare facility during the time the personnel, equipment and supplies are at the recipient healthcare facility. If the donor facility requests reimbursement for salaries or expenses, the recipient facility shall reimburse the donor facility, to the extent permitted by federal law, for all of the

## MUTUAL AID MEMORANDUM OF UNDERSTANDING

donor facility's costs determined by the donor facility and the recipient facility working together to determine the appropriate costs. Costs include all use, breakage, damage, replacement and return costs of borrowed materials. Staff wages, benefits, taxes, insurance, or other compensation is always paid by their home facility (employer). Reimbursement will be made within a mutually agreed timeframe between the donor facility and the recipient facility following receipt of the invoice.

### IX. Term and Termination

As to each participating healthcare facility, the terms of this Agreement will commence on the date of its signature of this MOU, and will continue in full force and effect for five (5) years from the date of the Agreement unless terminated or modified by mutual written agreement by all participating healthcare facilities. An individual facility may elect to terminate its participation in this MOU by providing thirty (30) days written notice to other participating healthcare facilities of its intent to terminate.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on behalf of:

**Rolling Hills Hospital**

By: [Signature] Date: 4/1/2014

**Trust Point of Murfreesboro**

By: [Signature] Date: 7/7/2014

## Occupational Wages

## ATTACHMENT C.OD.3



## All industries

## Nashville-Davidson--Murfreesboro, TN MSA

## Healthcare Practitioners and Technical Occupations

| Occupation Job Description                                | Occ. code | Est. empl. | Mean        |            |           | 25th pct | Median wage | 75th pct |
|-----------------------------------------------------------|-----------|------------|-------------|------------|-----------|----------|-------------|----------|
|                                                           |           |            | Hourly Wage | Entry wage | Exp. wage |          |             |          |
| <b>Healthcare Practitioners and Technical Occupations</b> | 29-0000   | 53,470     | 66,604      | 33,118     | 83,348    | 38,822   | 53,866      | 72,941   |
|                                                           |           |            | 32.00       | 15.90      | 40.05     | 18.65    | 25.90       | 35.05    |
| Chiropractors                                             | 29-1011   | 100        | 90,897      | 64,159     | 104,266   | 78,315   | 87,353      | 123,638  |
|                                                           |           |            | 43.70       | 30.85      | 50.15     | 37.65    | 42.00       | 59.45    |
| Dentists, General                                         | 29-1021   | 220        | 201,462     | 113,438    | 245,474   | 144,905  | 187,275     | 187,676  |
|                                                           |           |            | 96.85       | 54.55      | 118.00    | 69.65    | 90.05       | 90.25    |
| Oral and Maxillofacial Surgeons                           | 29-1022   | N/A        | 263,927     | N/A        | N/A       | 187,200  | 187,200     | 187,200  |
|                                                           |           |            | 126.90      |            |           | 90.00    | 90.00       | 90.00    |
| Dentists, All Other Specialists                           | 29-1029   | N/A        | 250,569     | N/A        | N/A       | 187,200  | 187,200     | 187,200  |
|                                                           |           |            | 120.45      |            |           | 90.00    | 90.00       | 90.00    |
| Dietitians and Nutritionists                              | 29-1031   | 380        | 50,144      | 38,708     | 55,861    | 41,258   | 47,301      | 60,200   |
|                                                           |           |            | 24.10       | 18.60      | 26.85     | 19.85    | 22.75       | 28.95    |
| Optometrists                                              | 29-1041   | 110        | 101,645     | 55,061     | 124,937   | 69,334   | 111,830     | 136,555  |
|                                                           |           |            | 48.85       | 26.45      | 60.05     | 33.35    | 53.75       | 65.65    |
| Pharmacists                                               | 29-1051   | 2,320      | 121,251     | 95,305     | 134,225   | 107,336  | 122,312     | 138,859  |
|                                                           |           |            | 58.30       | 45.80      | 64.55     | 51.60    | 58.80       | 66.75    |
| Anesthesiologists                                         | 29-1061   | 120        | 239,415     | 190,391    | N/A       | 187,200  | 187,200     | 187,200  |
|                                                           |           |            | 115.10      | 91.55      |           | 90.00    | 90.00       | 90.00    |
| Family and General Practitioners                          | 29-1062   | 590        | 135,727     | 51,725     | 177,728   | 54,552   | 112,313     | 187,358  |
|                                                           |           |            | 65.25       | 24.85      | 85.45     | 26.25    | 54.00       | 90.10    |
| Internists, General                                       | 29-1063   | N/A        | 174,529     | 77,496     | 223,046   | 128,517  | 172,773     | 187,555  |
|                                                           |           |            | 83.90       | 37.25      | 107.25    | 61.80    | 83.05       | 90.15    |
| Obstetricians and Gynecologists                           | 29-1064   | 80         | 210,021     | 140,005    | 245,029   | 163,506  | 187,338     | 187,744  |
|                                                           |           |            | 100.95      | 67.30      | 117.80    | 78.60    | 90.05       | 90.25    |
| Pediatricians, General                                    | 29-1065   | 180        | 175,251     | 122,264    | 201,744   | 155,235  | 172,619     | 187,345  |
|                                                           |           |            | 84.25       | 58.80      | 97.00     | 74.65    | 83.00       | 90.05    |
| Psychiatrists                                             | 29-1066   | 50         | 206,329     | 144,467    | 237,261   | 169,413  | 187,315     | 187,792  |
|                                                           |           |            | 99.20       | 69.45      | 114.05    | 81.45    | 90.05       | 90.30    |
| Surgeons                                                  | 29-1067   | 50         | 259,083     | N/A        | N/A       | 187,391  | 187,620     | 187,849  |
|                                                           |           |            | 124.55      |            |           | 90.10    | 90.20       | 90.30    |
| Physicians and Surgeons, All Other                        | 29-1069   | 1,930      | 223,282     | 154,264    | N/A       | 177,115  | 187,526     | 187,911  |
|                                                           |           |            | 107.35      | 74.15      |           | 85.15    | 90.15       | 90.35    |
| Physician Assistants                                      | 29-1071   | 320        | 86,479      | 59,417     | 100,010   | 69,412   | 85,044      | 104,883  |
|                                                           |           |            | 41.60       | 28.55      | 48.10     | 33.35    | 40.90       | 50.40    |
| Podiatrists                                               | 29-       | 60         | 144,729     | 72,711     | 180,739   | 76,738   | 101,085     | 187,200  |

Tennessee Occupational Wages: All industries in Nashville-Davidson--Murfreesboro, TN MSA

|                              |      |       |        |        |        |        |        |        |
|------------------------------|------|-------|--------|--------|--------|--------|--------|--------|
|                              | 1081 |       | 69.60  | 34.95  | 86.90  | 36.90  | 48.60  | 90.00  |
| Occupational Therapists      | 29-  | 470   | 77,746 | 60,947 | 86,146 | 65,891 | 76,530 | 89,213 |
|                              | 1122 |       | 37.40  | 29.30  | 41.40  | 31.70  | 36.80  | 42.90  |
| Physical Therapists          | 29-  | 1,240 | 75,262 | 58,700 | 83,543 | 64,574 | 76,372 | 88,007 |
|                              | 1123 |       | 36.20  | 28.20  | 40.15  | 31.05  | 36.70  | 42.30  |
| Radiation Therapists         | 29-  | 70    | 70,699 | 52,668 | 79,715 | 57,516 | 68,710 | 80,881 |
|                              | 1124 |       | 34.00  | 25.30  | 38.30  | 27.65  | 33.05  | 38.90  |
| Recreational Therapists      | 29-  | N/A   | 51,765 | 33,465 | 60,915 | 37,088 | 53,647 | 67,776 |
|                              | 1125 |       | 24.90  | 16.10  | 29.30  | 17.85  | 25.80  | 32.60  |
| Respiratory Therapists       | 29-  | 870   | 50,991 | 39,471 | 56,752 | 42,466 | 50,870 | 58,836 |
|                              | 1126 |       | 24.50  | 19.00  | 27.30  | 20.40  | 24.45  | 28.30  |
| Speech-Language Pathologists | 29-  | 550   | 59,333 | 40,672 | 68,663 | 45,717 | 56,047 | 71,150 |
|                              | 1127 |       | 28.55  | 19.55  | 33.00  | 22.00  | 26.95  | 34.20  |
| Exercise Physiologists       | 29-  | 40    | 48,410 | 35,717 | 54,756 | 37,788 | 45,663 | 57,543 |
|                              | 1128 |       | 23.25  | 17.15  | 26.30  | 18.15  | 21.95  | 27.65  |



Entry and Experienced Wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Department of Labor & Workforce Development, Labor Market Information. Publish date June 2014.

## Occupational Wages



## All industries

## Nashville-Davidson--Murfreesboro, TN MSA

## Healthcare Support Occupations

| Occupation Job Description                             | Occ. code | Est. empl. | Mean        |            | 25th pct | Median wage | 75th pct |
|--------------------------------------------------------|-----------|------------|-------------|------------|----------|-------------|----------|
|                                                        |           |            | Hourly Wage | Entry wage |          |             |          |
| <b>Healthcare Support Occupations</b>                  | 31-0000   | 21,230     | 27,520      | 18,867     | 31,846   | 20,689      | 25,868   |
|                                                        |           |            | 13.25       | 9.05       | 15.30    | 9.95        | 12.45    |
| Home Health Aides                                      | 31-1011   | 3,740      | 19,327      | 16,785     | 20,599   | 17,192      | 19,020   |
|                                                        |           |            | 9.30        | 8.05       | 9.90     | 8.25        | 9.15     |
| Psychiatric Aides                                      | 31-1013   | N/A        | 27,274      | 20,352     | 30,734   | 21,696      | 25,642   |
|                                                        |           |            | 13.10       | 9.80       | 14.80    | 10.45       | 12.35    |
| Nursing Assistants                                     | 31-1014   | 6,910      | 24,680      | 18,941     | 27,550   | 20,483      | 24,208   |
|                                                        |           |            | 11.85       | 9.10       | 13.25    | 9.85        | 11.65    |
| Orderlies                                              | 31-1015   | 310        | 24,910      | 21,048     | 26,841   | 22,511      | 24,561   |
|                                                        |           |            | 12.00       | 10.10      | 12.90    | 10.80       | 11.80    |
| Occupational Therapy Assistants                        | 31-2011   | 90         | 52,843      | 38,708     | 59,911   | 44,528      | 54,391   |
|                                                        |           |            | 25.40       | 18.60      | 28.80    | 21.40       | 26.15    |
| Physical Therapist Assistants                          | 31-2021   | 390        | 51,471      | 37,212     | 58,600   | 44,031      | 53,244   |
|                                                        |           |            | 24.75       | 17.90      | 28.15    | 21.15       | 25.60    |
| Physical Therapist Aides                               | 31-2022   | 270        | 22,372      | 17,210     | 24,953   | 18,886      | 21,757   |
|                                                        |           |            | 10.75       | 8.25       | 12.00    | 9.10        | 10.45    |
| Massage Therapists                                     | 31-9011   | 320        | 40,190      | 27,466     | 46,551   | 31,976      | 35,908   |
|                                                        |           |            | 19.30       | 13.20      | 22.40    | 15.35       | 17.25    |
| Dental Assistants                                      | 31-9091   | 1,940      | 35,112      | 27,757     | 38,790   | 30,860      | 35,287   |
|                                                        |           |            | 16.90       | 13.35      | 18.65    | 14.85       | 16.95    |
| Medical Assistants                                     | 31-9092   | 4,560      | 31,636      | 25,467     | 34,721   | 26,773      | 30,566   |
|                                                        |           |            | 15.20       | 12.25      | 16.70    | 12.85       | 14.70    |
| Medical Equipment Preparers                            | 31-9093   | 130        | 31,054      | 24,182     | 34,489   | 26,054      | 31,297   |
|                                                        |           |            | 14.95       | 11.65      | 16.60    | 12.55       | 15.05    |
| Medical Transcriptionists                              | 31-9094   | N/A        | 45,460      | 27,963     | 54,209   | 30,264      | 34,485   |
|                                                        |           |            | 21.85       | 13.45      | 26.05    | 14.55       | 16.60    |
| Pharmacy Aides                                         | 31-9095   | 370        | 20,256      | 16,884     | 21,942   | 17,958      | 20,134   |
|                                                        |           |            | 9.75        | 8.10       | 10.55    | 8.65        | 9.70     |
| Veterinary Assistants and Laboratory Animal Caretakers | 31-9096   | 530        | 28,165      | 21,694     | 31,400   | 24,407      | 28,254   |
|                                                        |           |            | 13.55       | 10.45      | 15.10    | 11.75       | 13.60    |
| Phlebotomists                                          | 31-9097   | 1,010      | 25,575      | 19,577     | 28,574   | 20,682      | 23,521   |
|                                                        |           |            | 12.30       | 9.40       | 13.75    | 9.95        | 11.30    |
| Healthcare Support Workers, All Other                  | 31-9099   | N/A        | 33,916      | 22,497     | 39,626   | 23,703      | 34,903   |
|                                                        |           |            | 16.30       | 10.80      | 19.05    | 11.40       | 16.80    |



Entry and Experienced Wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Department of Labor & Workforce Development, Labor Market Information. Publish date June 2014.



**Adult Psychiatry:****ADULT PSYCHIATRY STAFFING AND WAGE MATRIX**

| ADULT PSYCHIATRY: 4 UNITS    |                 |      |       |       |       |       | Salary/Wage    | Current FTEs | Proposed FTEs |
|------------------------------|-----------------|------|-------|-------|-------|-------|----------------|--------------|---------------|
|                              | CENSUS          | 1-10 | 11-15 | 16-20 | 21-25 | 26-31 |                |              |               |
|                              |                 |      |       |       |       |       |                |              |               |
|                              | <b>DIRECTOR</b> | 1    | 1     | 1     | 1     | 1     | \$96,000/YR    | 1            | 2             |
|                              | <b>NRS MGR</b>  | 1    | 1     | 1     | 1     | 1     | \$70,000/YR    | 1            | 2             |
| <b>DAYS/EVENINGS</b>         | <b>RN/LPN</b>   | 1    | 2     | 2     | 3     | 3     | Avg \$25-32/hr | 10.5         | 25.3          |
|                              | <b>PCT</b>      | 1    | 1     | 2     | 2     | 3     | Avg \$14-16/hr | 10.5         | 25.3          |
|                              | <b>CLERICAL</b> | 1    | 1     | 1     | 1     | 1     | Avg \$14-16/hr | 1            | 3             |
|                              |                 |      |       |       |       |       |                |              |               |
| <b>NIGHTS</b>                | <b>RN/LPN</b>   | 1    | 1     | 1     | 2     | 2     | Avg \$25-32/hr | 8.4          | 16.8          |
|                              | <b>PCT</b>      | 1    | 1     | 1     | 1     | 1     | Avg \$14-16/hr | 4.2          | 8.4           |
| <b>HOUSE SUPERVISOR (RN)</b> |                 |      |       |       |       |       | \$75,000/YR    | 0            | 2.1           |

At least one RN must be scheduled each shift.

NRS MGR = Nurse Manager

PCT = Patient Care Technician (e.g., CNA or equivalent)

## Geriatric Psychiatry:

### GERIATRIC PSYCHIATRY STAFFING AND WAGE MATRIX

| GERIATRIC PSYCHIATRY |                 |      |       |       |       |       | Salary/Wage    | Current FTEs | Proposed FTEs |
|----------------------|-----------------|------|-------|-------|-------|-------|----------------|--------------|---------------|
|                      | CENSUS          | 1-10 | 11-15 | 16-20 | 21-28 | 29-36 |                |              |               |
|                      |                 |      |       |       |       |       |                |              |               |
|                      | <b>DIRECTOR</b> | 1    | 1     | 1     | 1     | 1     | \$96,000/YR    | 1            | 1             |
|                      | <b>NRS MGR</b>  | 1    | 1     | 1     | 1     | 1     | \$70,000/YR    | 1            | 1             |
| <b>DAYS/EVENINGS</b> | <b>RN/LPN</b>   | 1    | 2     | 3     | 4     | 5     | Avg \$25-32/hr | 8.4          | 10.5          |
|                      | <b>PCT</b>      | 2    | 2     | 2     | 3     | 4     | Avg \$14-16/hr | 5.6          | 8.4           |
|                      | <b>CLERICAL</b> | 1    | 1     | 1     | 1     | 1     | Avg \$14-16/hr | 1            | 1             |
|                      |                 |      |       |       |       |       |                |              |               |
| <b>NIGHTS</b>        | <b>RN/LPN</b>   | 1    | 2     | 2     | 3     | 4     | Avg \$25-32/hr | 6.3          | 8.4           |
|                      | <b>PCT</b>      | 1    | 1     | 2     | 2     | 3     | Avg \$14-16/hr | 4.2          | 6.3           |

At least one RN must be scheduled each shift.

NRS MGR = Nurse Manager

PCT = Patient Care Technician (e.g., CNA or equivalent)

**Physical Medicine/Rehabilitation:**

**PHYSICAL MEDICINE AND REHABILITATION STAFFING AND WAGE MATRIX**

| PHYSICAL MEDICINE/REHABILITATION |          |     |      |       |  | Salary/Wage    | Current FTEs | Proposed FTEs |
|----------------------------------|----------|-----|------|-------|--|----------------|--------------|---------------|
|                                  | CENSUS   | 1-7 | 8-14 | 15-22 |  |                |              |               |
|                                  |          |     |      |       |  |                |              |               |
|                                  | DIRECTOR | 1   | 1    | 1     |  | \$96,000/YR    | 1            | 1             |
|                                  | NRS MGR  | 1   | 1    | 1     |  | \$70,000/YR    | 1            | 1             |
| DAYS/EVENINGS                    | RN/LPN   | 2   | 2    | 3     |  | Avg \$25-32/hr | 8.4          | 8.4           |
|                                  | PCT      | 0   | 2    | 3     |  | Avg \$14-16/hr | 6.3          | 6.3           |
|                                  | CLERICAL | 1   | 1    | 1     |  | Avg \$14-16/hr | 1            | 1             |
|                                  | PT       | 1.5 | 2.5  | 4     |  | Avg \$32/hr    | 10.5         | 10.5          |
|                                  | OT       | 1.5 | 2.5  | 4     |  | Avg \$39/hr    | 7            | 7             |
|                                  | SPEECH   | 1   | 1    | 2     |  | Avg \$37/hr    | 2.8          | 2.8           |
|                                  |          |     |      |       |  |                |              |               |
| NIGHTS                           | RN/LPN   | 2   | 2    | 3     |  | Avg \$25-32/hr | 8.4          | 8.4           |
|                                  | PCT      | 0   | 2    | 3     |  | Avg \$14-16/hr | 6.3          | 6.3           |

At least one RN must be scheduled each shift.

NRS MGR = Nurse Manager

PCT = Patient Care Technician (e.g., CNA or equiv.)

PT = Physical Therapist

OT = Occupational Therapist

## Pediatric Psychiatry:

### PEDIATRIC PSYCHIATRY STAFFING AND WAGE MATRIX

| PEDIATRIC PSYCHIATRY |                 |     |      |       |       | Salary/Wage    | Current FTEs | Proposed FTEs |
|----------------------|-----------------|-----|------|-------|-------|----------------|--------------|---------------|
|                      | CENSUS          | 1-8 | 9-16 | 17-24 | 25-28 |                |              |               |
|                      |                 |     |      |       |       |                |              |               |
|                      | <b>DIRECTOR</b> | 1   | 1    | 1     | 1     | \$90,000/YR    | 0            | 1             |
|                      | <b>NRS MGR</b>  | 1   | 1    | 1     | 1     | \$83,000/YR    | 0            | 1             |
| <b>DAYS</b>          | <b>RN/LPN</b>   | 1   | 2    | 3     | 3     | Avg \$25-32/hr | 0            | 6.3           |
|                      | <b>PCT</b>      | 1   | 1    | 2     | 4     | Avg \$14-16/hr | 0            | 8.4           |
|                      | <b>CLERICAL</b> | 1   | 1    | 1     | 1     | Avg \$14-16/hr | 0            | 1             |
| <b>NIGHTS</b>        | <b>RN/LPN</b>   | 1   | 2    | 3     | 3     | Avg \$25-32/hr | 0            | 6.3           |
|                      | <b>PCT</b>      | 1   | 1    | 1     | 3     | Avg \$14-16/hr | 0            | 6.3           |

At least one RN must be scheduled each shift.

NRS MGR = Nurse Manager

PCT = Patient Care Technician (e.g., CNA or equivalent)

**Medical Psychiatry/Detox:****MEDICAL PSYCHIATRY/DETOX**

| MEDICAL PSYCHIATRY/DETOX |          |     |     |       |       | Salary/Wage    | Current FTEs | Proposed FTEs |
|--------------------------|----------|-----|-----|-------|-------|----------------|--------------|---------------|
|                          | CENSUS   | 1-4 | 5-9 | 10-15 | 16-18 |                |              |               |
|                          |          |     |     |       |       |                |              |               |
|                          | DIRECTOR | 1   | 1   | 1     | 1     | \$100,000/YR   | 1            | 1             |
|                          | NRS MGR  | 1   | 1   | 1     | 1     | \$83,000/YR    | 1            | 1             |
| DAYS                     | RN/LPN   | 1   | 2   | 3     | 3     | Avg \$25-32/hr | 4.2          | 6.3           |
|                          | PCT      | 1   | 1   | 1     | 3     | Avg \$14-16/hr | 2.1          | 6.3           |
|                          |          |     |     |       |       |                |              |               |
| NIGHTS                   | RN/LPN   | 1   | 2   | 3     | 3     | Avg \$25-32/hr | 4.2          | 6.3           |
|                          | PCT      | 1   | 1   | 1     | 3     | Avg \$14-16/hr | 2.1          | 6.3           |

At least one RN must be scheduled each shift.

NRS MGR = Nurse Manager

PCT = Patient Care Technician (e.g., CNA or equivalent)

## PEDIATRIC RESIDENTIAL TREATMENT STAFFING AND WAGE MATRIX

| PEDIATRIC RESIDENTIAL TREATMENT |                 |     |      |       |       | Salary/Wage    | Current FTEs | Proposed FTEs |
|---------------------------------|-----------------|-----|------|-------|-------|----------------|--------------|---------------|
|                                 | CENSUS          | 1-8 | 9-16 | 17-24 | 25-32 |                |              |               |
|                                 |                 |     |      |       |       |                |              |               |
|                                 | <b>DIRECTOR</b> | 1   | 1    | 1     | 1     | \$90,000/YR    | 0            | 1             |
|                                 | <b>NRS MGR</b>  | 1   | 1    | 1     | 1     | \$83,000/YR    | 0            | 1             |
| <b>DAYS</b>                     | <b>RN/LPN</b>   | 1   | 2    | 3     | 3     | Avg \$25-32/hr | 0            | 6.3           |
|                                 | <b>PCT</b>      | 1   | 1    | 2     | 4     | Avg \$14-16/hr | 0            | 8.4           |
|                                 | <b>CLERICAL</b> | 1   | 1    | 1     | 1     | Avg \$14-16/hr | 0            | 1             |
| <b>NIGHTS</b>                   | <b>RN/LPN</b>   | 1   | 2    | 3     | 3     | Avg \$25-32/hr | 0            | 6.3           |
|                                 | <b>PCT</b>      | 1   | 1    | 1     | 3     | Avg \$14-16/hr | 0            | 6.3           |

At least one RN must be scheduled each shift.

NRS MGR = Nurse Manager

PCT = Patient Care Technician (e.g., CNA or equivalent)

# Board for Licensing Health Care Facilities



State of Tennessee

## DEPARTMENT OF HEALTH

0000000184

No. of Beds 0101

*This is to certify, that a license is hereby granted by the State Department of Health to*

*TRUSTPOINT HOSPITAL, LLC* to conduct and maintain a

*Hospital*

TRUSTPOINT HOSPITAL

*Located at*

1009 NORTH THOMPSON LANE, MURFREESBORO

*County of*

RUTHERFORD, Tennessee.

*This license shall expire* AUGUST 06, 2016, *and is subject to the provisions of Chapter 11, Tennessee Code Annotated. This license shall not be assignable or transferable, and shall be subject to revocation at any time by the State Department of Health, for failure to comply with the laws of the State of Tennessee or the rules and regulations of the State Department of Health issued thereunder.*

*In Witness Whereof, we have hereunto set our hand and seal of the State this* 22ND *day of* JULY, 2015.

GENERAL HOSPITAL  
PEDIATRIC BASIC HOSPITAL

*In the Distinct Category(ies) of:*



*By* Tim J. Davis, MPH  
DIRECTOR, DIVISION OF HEALTH CARE FACILITIES

*By* John J. Davis, Jr.  
COMMISSIONER

# SeniorHealth of Rutherford, LLC

Murfreesboro, TN

has been Accredited by



## The Joint Commission

Which has surveyed this organization and found it to meet the requirements for the

Hospital Accreditation Program

September 18, 2012

Accreditation is customarily valid for up to 36 months.

Isabel V. Horvath, MD, MACP  
Chair, Board of Commissioners

Organization ID #528362  
Print/Reprint Date: 10/1/12

Mark R. Chassin, MD, FACP, MPE, MPH  
President

The Joint Commission is an independent, not-for-profit, national body that oversees the safety and quality of health care and other services provided in accredited organizations. Information about accredited organizations may be provided directly to The Joint Commission at 1-800-994-6610. Information regarding accreditation and the accreditation performance of individual organizations can be obtained through The Joint Commission's web site at [www.jointcommission.org](http://www.jointcommission.org).







SeniorHealth of Rutherford, LLC  
1009 N. Thompson Ln.  
Murfreesboro, TN 37129

**Organization Identification Number: 528362**

**Program(s)**  
Hospital Accreditation

**Survey Date(s)**  
09/13/2012-09/14/2012

**Executive Summary**

As a result of the survey conducted on the above date(s), the following survey findings have been identified. Your official report will be posted to your organization's confidential extranet site. It will contain specific follow-up instructions regarding your survey findings.

If you have any questions, please do not hesitate to contact your Account Executive.

Thank you for collaborating with The Joint Commission to improve the safety and quality of care provided to patients.

## The Joint Commission Summary of Findings

### DIRECT Impact Standards:

|                   |                                |     |
|-------------------|--------------------------------|-----|
| <b>Program:</b>   | Hospital Accreditation Program |     |
| <b>Standards:</b> | EC.02.04.03                    | EP2 |

### INDIRECT Impact Standards:

|                   |                                |      |
|-------------------|--------------------------------|------|
| <b>Program:</b>   | Hospital Accreditation Program |      |
| <b>Standards:</b> | LS.02.01.10                    | EP9  |
|                   | LS.02.01.35                    | EP4  |
|                   | MS.06.01.01                    | EP1  |
|                   | PC.01.02.01                    | EP3  |
|                   | RC.01.01.01                    | EP19 |

**The Joint Commission  
Summary of CMS Findings**

**CoP:** §482.24      **Tag:** A-0431      **Deficiency:** Standard

**Corresponds to:** HAP

**Text:** §482.24 Condition of Participation: Medical Record Services

The hospital must have a medical record service that has administrative responsibility for medical records. A medical record must be maintained for every individual evaluated or treated in the hospital.

| CoP Standard  | Tag    | Corresponds to         | Deficiency |
|---------------|--------|------------------------|------------|
| §482.24(c)(1) | A-0450 | HAP - RC.01.01.01/EP19 | Standard   |

**CoP:** §482.28      **Tag:** A-0618      **Deficiency:** Standard

**Corresponds to:** HAP

**Text:** §482.28 Condition of Participation: Food and Dietetic Services

The hospital must have organized dietary services that are directed and staffed by adequate qualified personnel. However, a hospital that has a contract with an outside food management company may be found to meet this Condition of Participation if the company has a dietician who serves the hospital on a full-time, part-time, or consultant basis, and if the company maintains at least the minimum standards specified in this section and provides for constant liaison with the hospital medical staff for recommendations on dietetic policies affecting patient treatment.

| CoP Standard  | Tag    | Corresponds to        | Deficiency |
|---------------|--------|-----------------------|------------|
| §482.28(b)(2) | A-0630 | HAP - PC.01.02.01/EP3 | Standard   |

**CoP:** §482.41      **Tag:** A-0700      **Deficiency:** Standard

**Corresponds to:** HAP

**Text:** §482.41 Condition of Participation: Physical Environment

The hospital must be constructed, arranged, and maintained to ensure the safety of the patient, and to provide facilities for diagnosis and treatment and for special hospital services appropriate to the needs of the community.

| CoP Standard     | Tag    | Corresponds to                            | Deficiency |
|------------------|--------|-------------------------------------------|------------|
| §482.41(c)(2)    | A-0724 | HAP - EC.02.04.03/EP2                     | Standard   |
| §482.41(b)(1)(i) | A-0710 | HAP - LS.02.01.10/EP9,<br>LS.02.01.35/EP4 | Standard   |

## The Joint Commission Findings

**Chapter:** Environment of Care  
**Program:** Hospital Accreditation  
**Standard:** EC.02.04.03  
**Standard Text:** The hospital inspects, tests, and maintains medical equipment.  
**Primary Priority Focus Area:** Physical Environment  
**Element(s) of Performance:**

2. The hospital inspects, tests, and maintains all life-support equipment. These activities are documented. (See also EC.02.04.01, EPs 3 and 4; PC.02.01.11, EP 2)



**Scoring Category :** A

**Score :** Insufficient Compliance

**Observation(s):**

EP 2

§482.41(c)(2) - (A-0724) - (2) Facilities, supplies, and equipment must be maintained to ensure an acceptable level of safety and quality.

This Standard is NOT MET as evidenced by:

Observed in Building Tour at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site for the Hospital deemed service.

During the building tour it was observed that the Medtronic Lifepak 20e located at the Rehabilitation Nursing station had no tag to verify it had been checked by Clinical Engineering prior to use.

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**Chapter:** Life Safety  
**Program:** Hospital Accreditation  
**Standard:** LS.02.01.10  
**Standard Text:** Building and fire protection features are designed and maintained to minimize the effects of fire, smoke, and heat.  
**Primary Priority Focus Area:** Physical Environment

**Element(s) of Performance:**

9. The space around pipes, conduits, bus ducts, cables, wires, air ducts, or pneumatic tubes that penetrate fire-rated walls and floors are protected with an approved fire-rated material.

Note: Polyurethane expanding foam is not an accepted fire-rated material for this purpose. (For full text and any exceptions, refer to NFPA 101-2000: 8.2.3.2.4.2)



**Scoring Category :** C

**Score :** Partial Compliance

**Observation(s):**

## The Joint Commission Findings

### EP 9

§482.41(b)(1)(i) - (A-0710) - (i) The hospital must meet the applicable provisions of the 2000 edition of the Life Safety Code of the National Fire Protection Association. The Director of the Office of the Federal Register has approved the NFPA 101®2000 edition of the Life Safety Code, issued January 14, 2000, for incorporation by reference in accordance with 5 U.S.C. 552(a) and 1 CFR part 51. A copy of the Code is available for inspection at the CMS Information Resource Center, 7500 Security Boulevard, Baltimore, MD or at the National Archives and Records Administration (NARA). For information on the availability of this material at NARA, call 202-741-6030, or go to: [http://www.archives.gov/federal\\_register/code\\_of\\_federal\\_regulations/ibr\\_locations.html](http://www.archives.gov/federal_register/code_of_federal_regulations/ibr_locations.html).

Copies may be obtained from the National Fire Protection Association, 1 Batterymarch Park, Quincy, MA 02269. If any changes in this edition of the Code are incorporated by reference, CMS will publish notice in the Federal Register to announce the changes.

This Standard is NOT MET as evidenced by:

Observed in Building Tour at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site for the Hospital deemed service.

During the building tour it was observed that a conduit fire penetration in the sprinkler riser room next to the boiler/mechanical room was not properly sealed or protected with an approved fire-rated material as required by NFPA 101-2000.

Observed in Building Tour at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site for the Hospital deemed service.

During the building tour it was observed that a piping fire penetration in the sprinkler riser room next to the boiler/mechanical room was not properly sealed or protected with an approved fire-rated material as required by NFPA 101-2000.

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|                                     |                                                                      |
|-------------------------------------|----------------------------------------------------------------------|
| <b>Chapter:</b>                     | Life Safety                                                          |
| <b>Program:</b>                     | Hospital Accreditation                                               |
| <b>Standard:</b>                    | LS.02.01.35                                                          |
| <b>Standard Text:</b>               | The hospital provides and maintains systems for extinguishing fires. |
| <b>Primary Priority Focus Area:</b> | Physical Environment                                                 |
| <b>Element(s) of Performance:</b>   |                                                                      |

4. Piping for approved automatic sprinkler systems is not used to support any other item. (For full text and any exceptions, refer to NFPA 25-1998: 2-2.2)



**Scoring Category :** C

**Score :** Partial Compliance

**Observation(s):**

## The Joint Commission Findings

### EP 4

§482.41(b)(1)(i) - (A-0710) - (i) The hospital must meet the applicable provisions of the 2000 edition of the Life Safety Code of the National Fire Protection Association. The Director of the Office of the Federal Register has approved the NFPA 101@2000 edition of the Life Safety Code, issued January 14, 2000, for incorporation by reference in accordance with 5 U.S.C. 552(a) and 1 CFR part 51. A copy of the Code is available for inspection at the CMS Information Resource Center, 7500 Security Boulevard, Baltimore, MD or at the National Archives and Records Administration (NARA). For information on the availability of this material at NARA, call 202-741-6030, or go to: [http://www.archives.gov/federal\\_register/code\\_of\\_federal\\_regulations/ibr\\_locations.html](http://www.archives.gov/federal_register/code_of_federal_regulations/ibr_locations.html).

Copies may be obtained from the National Fire Protection Association, 1 Batterymarch Park, Quincy, MA 02269. If any changes in this edition of the Code are incorporated by reference, CMS will publish notice in the Federal Register to announce the changes.

This Standard is NOT MET as evidenced by:

Observed in Building Tour at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site for the Hospital deemed service.

During the building tour it was observed that CAT 5 cable was being supported by the sprinkler pipe in the ceiling by the smoke doors across from the Rehabilitation unit Nursing Station, contrary to the requirements of NFPA 25-1998.

Observed in Building Tour at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site for the Hospital deemed service.

During the building tour it was observed that electrical conduit was being supported by the sprinkler pipe in the ceiling by the smoke doors on the second floor "C" wing, contrary to the requirements of NFPA 25-1998.

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**Chapter:** Medical Staff

**Program:** Hospital Accreditation

**Standard:** MS.06.01.01

**Standard Text:** Prior to granting a privilege, the resources necessary to support the requested privilege are determined to be currently available, or available within a specified time frame.

**Primary Priority Focus Area:** Credentialed Practitioners

**Element(s) of Performance:**

1. There is a process to determine whether sufficient space, equipment, staffing, and financial resources are in place or available within a specified time frame to support each requested privilege.



**Scoring Category :** A

**Score :** Insufficient Compliance

**Observation(s):**

### EP 1

Observed in Leadership Session at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site. During review of credential files, it was identified that privileges had been granted for items and procedures that the organization did not have the space, equipment, staffing, and financial resources in place or available. Example: radiologist who only do interpretation had been granted privileges for CT, MRI and other interventional procedures.

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**Chapter:** Provision of Care, Treatment, and Services

**Program:** Hospital Accreditation

**Standard:** PC.01.02.01

## The Joint Commission Findings

**Standard Text:** The hospital assesses and reassesses its patients.

**Primary Priority Focus Area:** Assessment and Care/Services

**Element(s) of Performance:**

3. The hospital has defined criteria that identify when nutritional plans are developed.  
(See also PC.01.02.03, EP 7)



**Scoring Category :A**

**Score :** Insufficient Compliance

**Observation(s):**

EP 3

§482.28(b)(2) - (A-0630) - (2) Nutritional needs must be met in accordance with recognized dietary practices and in accordance with orders of the practitioner or practitioners responsible for the care of the patients.

This Standard is NOT MET as evidenced by:

Observed in Individual Tracer at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site for the Hospital deemed service.

Observed during individual tracer activity and record review in the rehab and psych departments. During a review of the four inpatients in the rehab unit, it was noted that three of the patients' diagnoses and assessments identified special dietary needs. The patients' were noted to have co-morbidities including, but not limited to, diabetes and lactose intolerance, as well as a need for special dietary considerations. A review of each of the patients' medical records noted no involvement in coordination of the patients' nutritional needs by the registered dietitian. These observations were also noted in the inpatient psych department. In further discussion with staff regarding the referral process for including the registered dietitian in the patients' care, treatment, and services, it was identified that the hospital did not have defined criteria to identify/trigger when the registered dietitian would be consulted and when nutritional plans would in turn be developed.

---

**Chapter:** Record of Care, Treatment, and Services

**Program:** Hospital Accreditation

**Standard:** RC.01.01.01

**Standard Text:** The hospital maintains complete and accurate medical records for each individual patient.

**Primary Priority Focus Area:** Information Management

**Element(s) of Performance:**

19. For hospitals that use Joint Commission accreditation for deemed status purposes:  
All entries in the medical record, including all orders, are timed.



**Scoring Category :C**

**Score :** Insufficient Compliance

**Observation(s):**

## The Joint Commission Findings

### EP 19

§482.24(c)(1) - (A-0450) - (1) All patient medical record entries must be legible, complete, dated, timed, and authenticated in written or electronic form by the person responsible for providing or evaluating the service provided, consistent with hospital policies and procedures.

This Standard is NOT MET as evidenced by:

Observed in Individual Tracer at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site for the Hospital deemed service.

During individual patient tracer, record # 1 contained multiple authentications by the staff that had not been timed as per facility policy and procedure.

Observed in Individual Tracer at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site for the Hospital deemed service.

During individual patient tracer, record # 2 contained multiple authentications by the staff that had not been timed as per facility policy and procedure.

Observed in Document Review at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site for the Hospital deemed service.

During review of twenty (20) closed medical records, multiple issues were identified with dating and timing of signatures and authentication. Examples: Forms without a place for either a date and time. Forms with place for date and no time. Patient ID stickers covering date and time.

Observed in Record Review at SeniorHealth of Rutherford LLC (1009 North Thompson Lane, Murfreesboro, TN) site for the Hospital deemed service.

Observed during record review. The discharge summary was signed by the physician's assistant but was not dated and not timed.

---



## **The Joint Commission**



STATE OF TENNESSEE  
**DEPARTMENT OF HEALTH**  
OFFICE OF HEALTH LICENSURE AND REGULATION  
EAST TENNESSEE REGION  
7175 Strawberry Plains Pike, Ste 103  
Knoxville TN 37914  
Phone: 865-594-9396 Fax: 865-594-2168

January 13, 2016

Mr. Jeffery Woods, Administrator  
Trustpoint Hospital  
1009 North Thompson Ln  
Murfreesboro TN 37129

RE: 44-0231

Dear Mr. Woods:

The East Tennessee Regional Office conducted a complaint investigation at your facility on December 14-17, 2015. As a result of the investigation, no deficient practice was found.

If our office may be of assistance to you, please feel free to call (865) 594-9396.

Sincerely,

*Tamra Turberville/ljb*

Tamra Turberville, RN  
Interim Regional Administrator  
East TN Health Care Facilities

TT: ljb

TN00037682, TN00037657, TN00035928, TN00035860, TN00035362



Order Confirmation for Ad #: 0001345261

**Customer:** ANDERSON & BAKER (DNJ)  
**Address:** 2021 RICHARD JONES RD STE 12  
NASHVILLE TN 37215 USA  
**Acct. #:** NAS-60645765  
**Phone:** 6153703380

ANDERSON & BAKER (DNJ)  
**Ordered By:** Graham Baker

**Order Start Date:** 06/10/2016

**Order End Date:** 06/10/2016

|                    |                   |                  |                   |                  |                        |             |
|--------------------|-------------------|------------------|-------------------|------------------|------------------------|-------------|
| <u>Tear Sheets</u> | <u>Affidavits</u> | <u>Blind Box</u> | <u>Promo Type</u> | <u>Materials</u> | <u>Special Pricing</u> | <u>Size</u> |
| 0                  | 1                 |                  |                   |                  |                        | 2 X 71.00   |

|                   |                   |                     |                       |                   |
|-------------------|-------------------|---------------------|-----------------------|-------------------|
| <u>Net Amount</u> | <u>Tax Amount</u> | <u>Total Amount</u> | <u>Payment Amount</u> | <u>Amount Due</u> |
| \$358.70          | \$0.00            | \$358.70            | \$0.00                | \$358.70          |

**Ad Order Notes:**

**Sales Rep:** bzeitler

**Order Taker:** bzeitler

**Order Created** 06/08/2016

**INVOICE TEXT:** 0001345261NOTIFICATIONOFINTENTTOAPPLYFORACERTIFICATEOFNEEDTHISISTOPROVIDEOFFICIALNOTICE

| Product                | # Ins | Start Date | End Date   |
|------------------------|-------|------------|------------|
| NAS-DNJ.com            | 1     | 06/10/2016 | 06/10/2016 |
| NAS-Daily News Journal | 1     | 06/10/2016 | 06/10/2016 |

\* ALL TRANSACTIONS CONSIDERED PAID IN FULL UPON CLEARANCE OF FINANCIAL INSTITUTION

Text of Ad:

06/08/2016

0001345261

**NOTIFICATION OF INTENT TO APPLY FOR A  
CERTIFICATE OF NEED**

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Trustpoint Hospital, LLC, 1009 North Thompson Lane, Murfreesboro, TN 37129 ("Applicant"), a subsidiary of Acadia Healthcare Company Inc., 6100 Tower Circle, Suite 1000, Franklin, TN 37067, intends to file a Certificate of Need application for the addition of eighty-eight (88) hospital beds, as follows: Adult Psychiatric Beds will increase from fifty-nine (59) to one hundred eleven (111) beds; Geriatric Psychiatric Beds will remain at thirty-six (36) beds; Medical Detoxification beds will remain at eighteen (18) beds; Physical Rehabilitation beds will increase from sixteen (16) beds to twenty-four (24) beds; Child Psychiatric Beds will increase from no beds to fourteen (14) beds; and Adolescent Psychiatric Beds will increase from no beds to fourteen (14) beds; with total beds at the Applicant increasing from one hundred twenty-nine (129) beds to two hundred seventeen (217) beds. An approximate 119,500 Gross Square Feet new building will be constructed, plus an approximate 4,500 Gross Square Feet covered connector to the existing facility, and an additional approximate 3,372 Gross Square Feet will be added to the existing facility. The requested beds will be licensed by the Tennessee Department of Health as hospital beds, as are the already-approved beds at the Applicant's hospital. In addition to these eighty-eight (88) hospital beds, there will be thirty-two (32) residential care beds constructed in the new building, half (16 beds) for adolescents and half (16 beds) for children. These thirty-two (32) residential beds are not subject to Certificate of Need review, and will be licensed by the Tennessee Department of Mental Health and Substance Abuse Services. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will continue to serve Medicare, Medicaid, commercially insured, and private-pay patients. The estimated project cost is anticipated to be approximately \$60,000,000, including filing fee.

The anticipated date of filing the application is: June 15, 2016.

The contact person for this project is E. Graham Baker, Jr., Attorney who may be reached at 2021 Richard Jones Road, Suite 120, Nashville, TN 37215, 615/370-3380.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency  
Andrew Jackson Building  
500 Deaderick Street, Suite 850  
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

52  
+8  
+14  
+14  
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88

JUN 15 '16 4:10:53



## State of Tennessee

### Health Services and Development Agency

Andrew Jackson, 9<sup>th</sup> Floor, 502 Deaderick Street, Nashville, TN 37243

[www.tn.gov/hsda](http://www.tn.gov/hsda)

Phone: 615-741-2364

Fax: 615-741-9884

July 1, 2016

Graham Baker, Esq.  
2021 Richard Jones Road, Suite 120  
Nashville, TN 37215

RE: Certificate of Need Application -- Trustpoint Hospital LLC - CN1606-024

The addition of 88 hospital beds to the existing 129-bed acute care hospital licensed by the TN Department of Health resulting in a total of 217 licensed beds. The bed breakdown follows: Adult Psychiatric beds will increase from 59 to 111 beds; Physical Rehabilitation beds will increase from 16 beds to 24 beds; Child Psychiatric beds will increase from 0 beds to 14 beds; Adolescent Psychiatric will increase from 0 to 14 beds. The project includes the construction of a new building and renovation of existing facilities. A 32-bed residential care unit (16 adolescent/16 child) that is not subject to CON review will be built and housed onsite and will be licensed separately by the TDMHSAS. TrustPoint Hospital LLC is located at 1009 North Thompson Lane, Murfreesboro (Rutherford County), TN. The estimated project cost is \$57,320,105.

Dear Mr. Baker:

This is to acknowledge the receipt of supplemental information to your application for a Certificate of Need. Please be advised that your application is now considered to be complete by this office.

Your application is being forwarded to Trent Sansing at the Tennessee Department of Health for Certificate of Need review by the Division of Policy, Planning and Assessment. You may be contacted by Mr. Sansing or someone from his office for additional clarification while the application is under review by the Department. Mr. Sansing's contact information is [Trent.Sansing@tn.gov](mailto:Trent.Sansing@tn.gov) or 615-253-4702

In accordance with Tennessee Code Annotated, §68-11-1601, et seq., as amended by Public Chapter 780, the 60-day review cycle for this project will begin on July 1, 2016. The first 60 days of the cycle are assigned to the Department of Health, during which time a public hearing may be held on your application. You will be contacted by a representative from this Agency to establish the date, time and place of the hearing should one be requested. At the end of the 60-day period, a written report from the Department of Health or its representative will be forwarded to this office for Agency review. You will receive a copy of their findings. The Health Services and Development Agency will review your application on October 26, 2016.

Mr. Baker  
July 1, 2016  
Page 2

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. § 68-11-1607(d):

- (4) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.
- (5) All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have questions or require additional information, please contact me.

Sincerely,



Melanie M. Hill  
Executive Director

cc: Trent Sansing, TDH/Health Statistics, PPA



**State of Tennessee**

**Health Services and Development Agency**

Andrew Jackson, 9<sup>th</sup> Floor, 502 Deaderick Street, Nashville, TN 37243

[www.tn.gov/hsda](http://www.tn.gov/hsda)

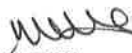
Phone: 615-741-2364

Fax: 615-741-9884

---

MEMORANDUM

TO: Trent Sansing, CON Director  
Office of Policy, Planning and Assessment  
Division of Health Statistics  
Andrew Johnson Tower, 2nd Floor  
710 James Robertson Parkway  
Nashville, Tennessee 37243

FROM:   
Melanie M. Hill  
Executive Director

DATE: July 1, 2016

RE: Certificate of Need Application  
Trustpoint Hospital LLC - CN1606-024

Please find enclosed an application for a Certificate of Need for the above-referenced project.

This application has undergone initial review by this office and has been deemed complete. It is being forwarded to your agency for a 60-day review period to begin on July 1, 2016 and end on September 1, 2016.

Should there be any questions regarding this application or the review cycle, please contact this office.

Enclosure

cc: Graham Baker, Esq.







## LETTER OF INTENT TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the Daily News Journal which is a newspaper of general  
(Name of Newspaper)

circulation in Rutherford County, Tennessee, on or before June 10, 2016 for one day.  
(County) (Month / day) (Year)

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This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Trustpoint Hospital, LLC, 1009 North Thompson Lane, Murfreesboro, TN 37129 ("Applicant"), a subsidiary of Acadia Healthcare Company Inc., 6100 Tower Circle, Suite 1000, Franklin, TN 37067, intends to file a Certificate of Need application for the addition of eighty-eight (88) hospital beds, as follows: Adult Psychiatric Beds will increase from fifty-nine (59) to one hundred eleven (111) beds; Geriatric Psychiatric Beds will remain at thirty-six (36) beds; Medical Detoxification beds will remain at eighteen (18) beds; Physical Rehabilitation beds will increase from sixteen (16) beds to twenty-four (24) beds; Child Psychiatric Beds will increase from no beds to fourteen (14) beds; and Adolescent Psychiatric Beds will increase from no beds to fourteen (14) beds; with total beds at the Applicant increasing from one hundred twenty-nine (129) beds to two hundred seventeen (217) beds. An approximate 119,500 Gross Square Feet new building will be constructed, plus an approximate 4,500 Gross Square Feet covered connector to the existing facility, and an additional approximate 3,372 Gross Square Feet will be added to the existing facility. The requested beds will be licensed by the Tennessee Department of Health as hospital beds, as are the already-approved beds at the Applicant's hospital. In addition to these eighty-eight (88) hospital beds, there will be thirty-two (32) residential care beds constructed in the new building, half (16 beds) for adolescents and half (16 beds) for children. These thirty-two (32) residential beds are not subject to Certificate of Need review, and will be licensed by the Tennessee Department of Mental Health and Substance Abuse Services. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will continue to serve Medicare, Medicaid, commercially insured, and private-pay patients. The estimated project cost is anticipated to be approximately \$60,000,000, including filing fee.

The anticipated date of filing the application is: June 15, 2016.

The contact person for this project is E. Graham Baker, Jr. Attorney  
(Contact Name) (Title)

who may be reached at: his office at 2021 Richard Jones Road, Suite 120  
(Company Name) (Address)

Nashville TN 37215 615/370-3380  
(City) (State) (Zip Code) (Area Code / Phone Number)

E. Graham Baker, Jr. 06/09/16 graham@grahambaker.net  
(Signature) (Date) (E-mail Address)

=====

The Letter of Intent must be **filed in triplicate** and **received between the first and the tenth day** of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency  
Andrew Jackson Building  
500 Deaderick Street, Suite 850  
Nashville, Tennessee 37243

=====

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

=====

\* The project description must address the following factors:

1. General project description, including services to be provided or affected.
2. Location of facility: street address, and city/town.
3. Total number of beds affected, licensure proposed for such beds, and intended uses.
4. Major medical equipment involved.
5. Health services initiated or discontinued.
6. Estimated project costs.
7. For home health agencies, list all counties in proposed/licensed service area.



## **PUBLICATION OF INTENT TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY**

**The following shall be published in the "Legal Notices" section of the newspaper in a space no smaller than two (2) columns by two (2) inches.**

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### **NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED**

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Trustpoint Hospital, LLC, 1009 North Thompson Lane, Murfreesboro, TN 37129 ("Applicant"), a subsidiary of Acadia Healthcare Company Inc., 6100 Tower Circle, Suite 1000, Franklin, TN 37067, intends to file a Certificate of Need application for the addition of eighty-eight (88) hospital beds, as follows: Adult Psychiatric Beds will increase from fifty-nine (59) to one hundred eleven (111) beds; Geriatric Psychiatric Beds will remain at thirty-six (36) beds; Medical Detoxification beds will remain at eighteen (18) beds; Physical Rehabilitation beds will increase from sixteen (16) beds to twenty-four (24) beds; Child Psychiatric Beds will increase from no beds to fourteen (14) beds; and Adolescent Psychiatric Beds will increase from no beds to fourteen (14) beds; with total beds at the Applicant increasing from one hundred twenty-nine (129) beds to two hundred seventeen (217) beds. An approximate 119,500 Gross Square Feet new building will be constructed, plus an approximate 4,500 Gross Square Feet covered connector to the existing facility, and an additional approximate 3,372 Gross Square Feet will be added to the existing facility. The requested beds will be licensed by the Tennessee Department of Health as hospital beds, as are the already-approved beds at the Applicant's hospital. In addition to these eighty-eight (88) hospital beds, there will be thirty-two (32) residential care beds constructed in the new building, half (16 beds) for adolescents and half (16 beds) for children. These thirty-two (32) residential beds are not subject to Certificate of Need review, and will be licensed by the Tennessee Department of Mental Health and Substance Abuse Services. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will continue to serve Medicare, Medicaid, commercially insured, and private-pay patients. The estimated project cost is anticipated to be approximately \$60,000,000, including filing fee.

The anticipated date of filing the application is: June 15, 2016.

The contact person for this project is E. Graham Baker, Jr., Attorney who may be reached at 2021 Richard Jones Road, Suite 120, Nashville, TN 37215, 615/370-3380.

**Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:**

**Health Services and Development Agency  
Andrew Jackson Building  
500 Deaderick Street, Suite 850  
Nashville, Tennessee 37243**

**The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.**

=====

\* The project description must address the following factors:

1. General project description, including services to be provided or affected.
2. Location of facility: street address, and city/town.
3. Total number of beds affected, licensure proposed for such beds, and intended uses.
4. Major medical equipment involved.
5. Health services initiated or discontinued.
6. Estimated project costs.
7. For home health agencies, list all counties in proposed/licensed service area.

HF0050 (Revised 7/02 – all forms prior to this date are obsolete)

# Supplemental #1 -COPY-

TrustPoint Hospital

CN1606-024

**ANDERSON & BAKER**

*An Association of Attorneys*

**2021 RICHARD JONES ROAD, SUITE 120  
NASHVILLE, TENNESSEE 37215-2874**

**June 27, 2016**

**9:26 am**

**ROBERT A. ANDERSON**

**Direct: 615-383-3332**

**Facsimile: 615-383-3480**

**E. GRAHAM BAKER, JR.**

**Direct: 615-370-3380**

**Facsimile: 615-221-0080**

June 27, 2016

Phillip Earhart, HSD Examiner  
Tennessee Health Services & Development Agency  
Andrew Jackson Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, TN 37243

RE: Supplemental Information: Certificate of Need Application CN1606-024  
TrustPoint Hospital

Dear Phillip:

Enclosed are three (3) copies of responses to your supplemental questions regarding the referenced Certificate of Need application. If you have any additional questions, please contact me.

Sincerely,



E. Graham Baker, Jr.

Enclosures as noted

**June 27, 2016****9:26 am****AFFIDAVIT**

STATE OF TENNESSEE

COUNTY OF WILLIAMSON

NAME OF FACILITY: TrustPoint Hospital (CN1606-024)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge, information and belief.

E. Graham Baker, Jr. Attorney at Law  
Signature/Title

Sworn to and subscribed before me, a Notary Public, this 27 day of June, 2016; witness my hand at office in the County of Williamson, State of Tennessee.

Timothy Allan Beekman II  
NOTARY PUBLIC

My Commission expires: 01-07-17

**1. Section A, Applicant Profile, Item 5**

In the application, CN1502-006A Polaris Hospital Management Incorporated is the management entity for TrustPoint Hospital. Please clarify the reason Polaris is longer the management/operating entity.

**Response:** Acadia Healthcare Company, Inc. purchased full ownership of the applicant's parent company subsequent to the approval of the CN1502-006A application. The management contract between the applicant and Polaris Hospital Management Incorporated was terminated as part of that purchase. The hospital's leadership team, which were employed through Polaris Hospital Management Incorporated at the time of the CN1502-006A application, are still in place but now as part of Acadia Healthcare Company, Inc.

Please discuss the applicant's experience in the management/operation of an acute care psychiatric hospital.

**Response:** TrustPoint Hospital has provided comprehensive psychiatric inpatient and outpatient services to the community since opening in 2012. The leadership team is comprised of seasoned healthcare and clinical experts with many years of experience in psychiatry and medicine. For example, the Chief Executive Officer is a registered nurse who holds advanced degrees in counseling psychology, public health, and a doctorate in nursing practice. In addition, the Chief Executive Officer is board certified in Psychiatric and Mental Health Nursing. The combined experience of the administrative and clinical leadership team, in the management/operation of an acute care psychiatric hospital, is more than 100 years.



**2. Section A, Applicant Profile, Item 6**

On page 26 of the application it is noted the hospital has purchased approximately 12 acres of additional land adjacent to and directly connected to the existing TrustPoint hospital property. Please provide a copy of the title/deed.

**Response:** TrustPoint Hospital has site-control of five parcels adjacent to and directly connected with the existing hospital. Together, these five parcels make approximately 12 acres. The purchase of three of those parcels (approximately 10.5 of the 12 acres) have closed and the titles are attached. The remaining two parcels (approximately 1.5 acres) will close in the next few weeks and their purchase contracts are attached. Although these remaining approximately 1.5 acres are being purchased, they are not essential to the hospital's build plan. Please see *Supplemental A.6*.

The lease of 99 years between NHI-REIT of Tennessee, LLC and TrustPoint is noted. However, please confirm the initial lease term is 15 years and with the right to renew.

**Response:** The initial lease term between the applicant and NHI-REIT of Tennessee, LLC is 15 years with rights to renew. This initial lease includes the land utilized by the applicant's existing building. The 99 year lease term is in reference to the adjacent land that was recently acquired for the construction of a second building.

**3. Section A, Applicant Profile (Bed Complement Data), Item 9**

| CON #/10 Bed Provision                        | Date Approved                   | Licensed Beds                                                      | Additional Beds Requested/Added                                                                                                                                        | Approved Beds at Completion                                                  | Outstanding Beds                                             |
|-----------------------------------------------|---------------------------------|--------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--------------------------------------------------------------|
|                                               | Date Implemented                |                                                                    |                                                                                                                                                                        |                                                                              |                                                              |
| SeniorHealth of Rutherford, LLC<br>CN0610-089 | Approved October 2006           | 60<br>(9 detox, 12 adult psych, 12 gero psych, 27 inpatient rehab) | 0                                                                                                                                                                      | 60                                                                           |                                                              |
|                                               | Implemented August 2012         |                                                                    |                                                                                                                                                                        |                                                                              |                                                              |
| CN1207-031A<br>Trustpoint Hospital            | October 2012                    | 60<br>(9 detox, 12 adult psych, 12 gero psych, 27 inpatient rehab) | 16<br>(8 adult Psych and 8 Gero Psych)                                                                                                                                 | 76<br>(9 detox, 20 adult psych, 20 gero psych, 27 inpatient rehab)           |                                                              |
|                                               | January 2013                    |                                                                    |                                                                                                                                                                        |                                                                              |                                                              |
| 10 Bed Provision<br>August 2013               | August 2013                     | 76                                                                 | +10 beds (10 psych)                                                                                                                                                    | 86 (50 psych, 9 medical, and 27 rehab)                                       |                                                              |
|                                               | August 2013                     |                                                                    |                                                                                                                                                                        |                                                                              |                                                              |
| 10 Bed Provision<br>October 2014              | August 2014                     | 86                                                                 | +10 beds<br>(9 psychiatric, and 1 med)                                                                                                                                 | 96<br>(59 psychiatric, 10 medical, 27 rehab)                                 |                                                              |
|                                               | October 2014                    |                                                                    |                                                                                                                                                                        |                                                                              |                                                              |
| CN1502-006<br>TrustPoint Hospital             | May 2015                        | 96                                                                 | +36<br>(28 adult psych 18-64 and 8 gero psych)<br><b>Applicant believes this should read as follows: +33 (28 adult psych, 8 medical, 8 geriatric psych, -11 Rehab)</b> | 129<br>(59 adult psych, 36 gero psych, , 18 medical detox, 16 rehab)         | 28<br>15 adult psych, 8 geriatric psych, 8 medical, -3 rehab |
|                                               | October 2015<br>(Phase I of II) |                                                                    |                                                                                                                                                                        |                                                                              |                                                              |
| CN1606-024<br>TrustPoint Hospital             |                                 | 129                                                                | +88<br>(52 adult psych, 14 child psych, 14 adolescent psych, 8 rehab)                                                                                                  | 217 (111 adult psych, 36 geropsych, 14 child psych, 14 adolescent, 24 rehab) |                                                              |

Please complete the above table which will indicate the status of any outstanding beds associated with prior approved projects. Please also complete the fields that are marked with a question mark.

**Response:** See above chart

Please provide a brief bed history that identifies when beds went into service beginning with the original Certificate of Need.

**Response:** The original Certificate of Need was for 60 beds (24 psychiatric, 9 medical and 27 rehabilitation). The original beds were licensed in August, 2012 and Accredited in September of 2012. 16 psychiatric beds were added to the Certificate of Need effective October of 2012. This grew total licensed bed count to 76 (40 psychiatric, 9 medical and 27 rehabilitation). Ten (10) beds were added to the Certificate of Need effective August of 2013. All of the additional beds were allocated to the psychiatric service. Total licensed beds grew to 86 (50 psychiatric, 9 medical and 27 rehabilitation). Ten (10) beds were added to the Certificate of Need effective August of 2014. Nine (9) of the additional beds were allocated to the psychiatric service and one (1) bed was allocated to the medical service. Total licensed beds grew to 96 (59 psychiatric, 10 medical and 27 rehabilitation). Forty-four (44) beds were added and 11 beds were subtracted for a net increase of 33 beds to the Certificate of Need effective May of 2015. 36 additional beds were allocated to the psychiatric service and 8 additional beds were added to the medical service. 11 beds were reduced from the rehabilitation service. Total approved beds grew to 129 (95 psychiatric, 18 medical and 16 rehabilitation). Total licensed beds grew to 101 (72 psychiatric, 10 medical, and 19 rehabilitation) in October of 2015 upon the completion of phase I of the 2015 Certificate of Need implementation.

Please clarify how the applicant can have 101 staffed beds while 28 beds are CON approved but not yet in service.

**Response:** Following the last CON approval, the hospital implemented phase I of that transition, resulting in the current bed complement of 101 beds as follows: 31 General Adult Psychiatry (no change), 13 Adult Affective Disorder Psychiatry (13 new beds), 28 Geriatric Psychiatry (no change), 19 Physical Medicine/Rehabilitation (reduction of 8 beds), and 10 Medical Detox/Psychiatry (no change). The remaining beds were slated for Phase II of the CON implementation. However, the recent acquisition of TrustPoint Hospital by Acadia Healthcare Company, Inc., and the additional land acquisitions, allows TrustPoint Hospital to more fully meet the integrated care needs of the broader population. Therefore, the remaining beds from the prior CON are incorporated in the new build, allowing for improved treatment space and resource allocation. It is important to note that in its last CON (CN1502-006A), TrustPoint Hospital acknowledged that its bed and service line request was limited by the space restrictions of the existing facility and the lack of land that could support further service delivery. In that prior application process, the State made additional inquiry regarding TrustPoint Hospital's future plans to provide services to a broader population. At that time, TrustPoint Hospital stated its ability to expand would be subject to the acquisition of new land or the ability to grow vertically (i.e., additional floors). The original facility construction was not designed to support constructing additional floors. Therefore, new land acquisition was the only alternative to support needed growth. As a result of the May 1, 2016 acquisition of TrustPoint Hospital by Acadia Healthcare Company, Inc., TrustPoint Hospital has been able to acquire additional land

and fully fund growth needed to support the long term psychiatric and rehabilitation medicine needs of our communities.

**4. Section A, Applicant Profile, Item 13**

It is noted United Healthcare Community Plan has closed their network and TrustPoint is not contracted for either inpatient psychiatry or physical rehabilitation. Did United Healthcare Community Plan indicate through correspondence the reason for closing their network to new providers? If so, please discuss.

**Response:** United Healthcare Community Plan has not provided any rationale for closing their networks. It is clear from the demand that additional providers are needed. Despite not being “in-contract” with United Healthcare Community Plan, we nevertheless accept and treat their members on an out-of-network/case agreement.

Please clarify if the applicant will be included in the United Healthcare Community Plan network for partial hospitalization, intensive outpatient, or outpatient services.

**Response:** United HealthCare Community Plan has steadfastly declined to contract with new providers, including TrustPoint Hospital. Nevertheless, we continue discussions to be included in their network. Notwithstanding their refusal to contract, TrustPoint Hospital provides care to United Healthcare Community Plan as an out-of-network provider. TrustPoint Hospital expects it will eventually gain contract status and will continue to provide care for patients across the continuum of services.

Please clarify if the applicant is contracted with AmeriGroup for Physical Rehabilitation Services. If not, what is the current status?

**Response:** AmeriGroup does not consider Inpatient Rehabilitation Services for patients 21 and older to be a covered service.

The applicant references Attachment B.I.A but could not be located in the application. Please clarify.

**Response:** Please see *Supplemental B.I.A.*

**5. Section B, Project Description, Item I**

Please discuss why the applicant is adding beds while 15 adult psychiatric, 8 gero psych approved previously approved are not yet in service, the applicant has only been in operation as a hospital for 4 years, and the applicant has adjusted beds through 2 previously approved Certificates of Need and through two 10 bed provision bed adjustments. Please be specific.

**Response:** At the time CN1502-006A was approved in May 2015, TrustPoint Hospital did not have the land or financial capabilities to build in a way that would meet the relentless demand for services. Because of the land and capital limitations, the only option for TrustPoint Hospital at that time was to make a request for beds within the strict limitations of the existing physical building, knowing and representing to the Health Services Development Agency that the request was still insufficient to meet the need in the community for psychiatric care. As a trade-off related to space constraints and excess capacity in Physical Medicine/Rehabilitation, TrustPoint Hospital asked to reduce its Physical Medicine/Rehabilitation beds from 27 to 16. The reduction to 16 beds was based on the physical plant layout limitations resulting from regulatory requirements to ensure appropriate separation between services. This reduction in Physical Medicine/Rehabilitation beds was also deemed the lesser concession against the unrelenting demand in psychiatry. With the recent acquisition of new land and financial support gained through Acadia Healthcare Company's purchase of the hospital, those very restrictive space constraints have been alleviated, allowing the hospital to grow and expand in an orderly fashion to meet the actual needs of the community, versus having to trade-off beds and services that the hospital and community deem essential now and in the future. It is correct that TrustPoint Hospital has expanded through the series of steps described in this supplemental question. Each of these bed expansions has been orderly and fully supported by the apparent, actual, and continuing extreme demand for services.

Following the last CON approval, the hospital implemented phase I of that transition, resulting in the current bed complement of 101 beds as follows: 31 General Adult Psychiatry (no change), 13 Adult Affective Disorder Psychiatry (13 new beds), 28 Geriatric Psychiatry (no change), 19 Physical Medicine/Rehabilitation (reduction of 8 beds), and 10 Medical Detox/Psychiatry (no change). The remaining beds were slated for Phase II of the CON implementation. However, the recent acquisition of TrustPoint Hospital by Acadia Healthcare Company, Inc., and the additional land acquisitions, allows TrustPoint Hospital to more fully meet the integrated care needs of the broader population. Therefore, the remaining beds from the prior CON are incorporated in the new build, allowing for improved treatment space and resource allocation. It is important to note that in its last CON (CN1502-006A), TrustPoint Hospital acknowledged that its bed and service line request was limited by the space restrictions of the existing facility and the lack of land that could support further service delivery. In that prior application process, the State made additional inquiry regarding TrustPoint Hospital's future plans to provide services to a broader population. At that time, TrustPoint Hospital stated its ability to expand would be subject to the acquisition of new land or the ability to grow vertically (i.e., additional floors). The original facility construction was not designed to support constructing additional floors. Therefore, new land acquisition was the only alternative to support needed growth. As a result



of the May 1, 2016 acquisition of TrustPoint Hospital by Acadia Healthcare Company, Inc., TrustPoint Hospital has been able to acquire additional land and fully fund growth needed to support the long term psychiatric and rehabilitation medicine needs of our communities.

Please identify the age ranges that will define patients as child and adolescent.

**Response:** As set out in the State Health Plan, TrustPoint Hospital will define child age range from 5-12 years and adolescent age range from 13-17 years. However, decisions regarding adherence to these strictly numerical ranges will vary depending upon the clinical presentation of the patients. For example, a 12 year old child with conduct, behavior, and intellect who is better suited and more compatible with the adolescent population, may receive services in that program.

Please provide a brief description of the applicant's outpatient, intensive outpatient, partial hospitalization, intensive outpatient inpatient, and outpatient programs. Please include the operating hours and target population for each program.

**Response:** TrustPoint Hospital currently provides the following outpatient programs: Adult Intensive Outpatient Program (IOP). In addition, TrustPoint Hospital owns the ClearPath Behavioral Health clinic. The IOP provides intensive counseling and group therapy services to adults 18 and over. This program operates Monday through Friday in two sessions of three hours each. The sessions are offered from 9:00 am to noon and 5:00 pm to 8:00 pm. Patients are able to select the morning or evening program based on their personal, work, or child care needs. Patients participate on average three days per week for approximately 12-14 visits. The program is designed to serve as an alternative to inpatient care or as a step down from inpatient. All forms of insurance are accepted for this program as well as private pay and charity care. The ClearPath Behavioral Health clinic is operated under its unique name and does not identify itself as a hospital based program. The clinic is located in a medical office complex away from the hospital. Traditional outpatient consultation, assessment, medication management, and individual therapy are provided by a licensed psychiatrist and psychiatric nurse practitioner. Services are provided to adults and adolescents. The clinic is open Monday through Friday from 10:00 am to 6:00 pm, by appointment. In the coming weeks, the clinic will begin providing services on Saturday. Most forms of insurance are accepted, as well as private pay and charity.

To provide integrated services under this proposed CON, and as a result of the proposed build, TrustPoint Hospital will provide additional outpatient services to meet the demand and unique clinical needs of the population. The new services include expanded IOP and Partial Hospitalization Programs (PHP). The expanded IOP will allow for multiple clinical tracks to better differentiate the care provided to a broader clinical cross-section. The PHP program will operate in accordance with CMS regulations and provide intensive individual and group therapy to patients with serious mental illness. One of the chief goals of PHP and IOP is to manage psychiatric symptoms that if left unattended will likely result in repeated need for inpatient hospitalization. To support these patients, IOP and PHP will operate Monday through Friday. The PHP program is envisioned to operate multiple tracks to meet the unique clinical needs of the population (i.e., affective disorders, disorders related to cognition and behavior, military,

grief and loss, thought disorders, youth, etc.). The PHP and IOP programs will accept all contracted insurance as well as private pay and charity.

Please clarify if the applicant has a pharmacy. If so, where is it located?

**Response:** TrustPoint Hospital operates a pharmacy under contract with PharmaSource/OmniCare, a national provider of on-site hospital pharmacy solutions. The pharmacy is NOT a retail pharmacy (i.e., we do not dispense or sell medications to the public). In addition, the hospital contracts with Pipeline Rx, a national remote pharmacy service, for overnight and holiday services. At all times, a licensed pharmacist is either on-site or immediately available to return to the hospital if needed. The pharmacy is located on the first floor of the existing hospital.



**6. Section B, Project Description, Item II.A and II.E**

Item II.A - The Square Footage Chart is noted. To complement the description and chart pertaining to the proposed patient care units in Phase II of the proposed construction, as well as the location of all inpatient beds on the campus, please complete the table below.

| Hospital Floor                          | Current Unit Type                   | Number of Beds (Licensed /Staffed) | # Rooms Private, Semi-Pvt, Other | Proposed Unit Type                                                                                                                | Number of Beds (Licensed /Staffed) | # Rooms Private, Semi-Pvt, Other |
|-----------------------------------------|-------------------------------------|------------------------------------|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----------------------------------|
| 2 <sup>nd</sup> Floor Existing Hospital | Geri Psych Behavioral Unit          | 28                                 | 14 semi-private                  | Adult psychiatry - serious (6404 receiving)                                                                                       | 28                                 | 14 semi-private                  |
| 2 <sup>nd</sup> Floor Existing Hospital | Adult General Psychiatry            | 31                                 | 15 semi-private, 1 private       | Adult psychiatry - severe (6404 receiving)                                                                                        | 31                                 | 15 semi-private 1 private        |
| 1 <sup>st</sup> Floor Existing Hospital | Physical Medicine/ Rehab            | 19                                 | 19 Private                       | Physical Medicine/Rehab (this change will encompass the existing 1 <sup>st</sup> Floor Adult Affective Disorder Psychiatry space) | 24                                 | 24 private                       |
| 1 <sup>st</sup> Floor Existing Hospital | Adult Affective Disorder Psychiatry | 13                                 | 6 semi-private; 1 private        |                                                                                                                                   |                                    |                                  |
| 1 <sup>st</sup> Floor Existing Hospital | Medical Psychiatry/ Detox           | 10                                 | 8 private; 1 semi-private        | Medical Psychiatry/ Detox                                                                                                         | 18                                 | 18 private                       |
| 1 <sup>st</sup> Floor New Building      |                                     |                                    |                                  | Child Psychiatry                                                                                                                  | 14                                 | 7 semi-private                   |
| 1 <sup>st</sup> Floor New Building      |                                     |                                    |                                  | Adolescent Psychiatry                                                                                                             | 14                                 | 7 semi-private                   |
| 1 <sup>st</sup> Floor New Building      |                                     |                                    |                                  | Geri Psych Behavioral Unit                                                                                                        | 36                                 | 18 semi-private                  |
| 2 <sup>nd</sup> Floor New Building      |                                     |                                    |                                  | Adult Affective Disorder Psychiatry                                                                                               | 28                                 | 14 semi-private                  |
| 2 <sup>nd</sup> Floor New Building      |                                     |                                    |                                  | Adult Co-Occurring Disorder Psychiatry                                                                                            | 24                                 | 12 semi-private                  |
|                                         |                                     |                                    |                                  |                                                                                                                                   |                                    |                                  |
| Total                                   |                                     | 101                                |                                  |                                                                                                                                   | 217                                |                                  |

Please complete the following chart showing room changes from current to proposed:

**Private/Semi-Private Room and Bed Mix**

| Bed Type                | Current Private Rooms/Beds |           | Current Semi-Private Rooms/Beds |           |  | Proposed Private Rooms/Beds |           | Proposed Semi-Private Rooms/Beds |            |
|-------------------------|----------------------------|-----------|---------------------------------|-----------|--|-----------------------------|-----------|----------------------------------|------------|
|                         | Rooms                      | Beds      | Rooms                           | Beds      |  | Rooms                       | Beds      | Rooms                            | Beds       |
| <b>Child Psych</b>      | 0                          | 0         | 0                               | 0         |  | 0                           | 0         | 7                                | 14         |
| <b>Adolescent Psych</b> | 0                          | 0         | 0                               | 0         |  | 0                           | 0         | 7                                | 14         |
| <b>Adult Psych</b>      | 2                          | 2         | 21                              | 42        |  | 1                           | 1         | 55                               | 110        |
| <b>Geriatric Psych</b>  | 0                          | 0         | 14                              | 28        |  | 0                           | 0         | 18                               | 36*        |
| <b>Medical Detox</b>    | 8                          | 8         | 1                               | 2         |  | 18                          | 18        | 0                                | 0*         |
| <b>Physical Rehab</b>   | 19                         | 19        | 0                               | 0         |  | 24                          | 24        | 0                                | 0          |
| <b>TOTAL</b>            | <b>29</b>                  | <b>29</b> | <b>36</b>                       | <b>72</b> |  | <b>43</b>                   | <b>43</b> | <b>87</b>                        | <b>174</b> |

\* These beds have been approved under prior CON (CN1502-006A)

**7. Section B, Project Description, Item II.A**

The applicant notes a 199,500 SF building will be constructed. However, the Square Footage and Cost Per Square Footage Chart reflects a building of 127,372 SF. Please clarify.

**Response:** Respectfully, a review of the applicant's response found in paragraphs 1 and 7 of Section B, Project Description, Item II.A., correctly reflects that construction will include an approximately 119,500 SF new building, an approximately 3,372 SF addition to the existing facility, and an approximately 4,500 SF covered connector between the existing and new buildings. Together, the proposed construction totals approximately 127,372 SF.

The applicant notes 3,372 SF will be added to the existing facility. Where is this located in the Square footage and Cost Per Square Footage chart?

**Response:** This information is located under column "A. Unit / Department" of the Square Footage and Cost per Square Footage Chart. The entry is titled "Existing Hospital Expansion"

Please provide the referenced Attachment B.I.A and B.I.B.

**Response:** Please see *Supplemental B.I.A.* and *Supplemental B.I.B.*

## 8. Section B, Project Description, Item II.C

It appears the applicant has a 31 bed unit that specializes in involuntary admissions. Please describe how the unit will provide services/security/and staff to handle more acute psychiatric patients.

**Response:** From its inception, TrustPoint Hospital has provided care to a very substantial population of involuntary patients. For this population, we staff at ratios (4-5:1) to meet the acuity demands of the patients. In addition, one-on-one staffing is applied as needed for more seriously acute patients. All staff are trained on hire and annually in Prevention and Management of Aggressive Behavior (PMAB). This training provides the framework for ensuring patient and staff safety. The hospital also utilizes an overhead page (Code Orange) when additional staff support may be required. Like a medical code, teams of staff respond to the area making the page to assist in management of potentially harmful circumstances. TrustPoint Hospital contracts with a security company to provide additional safety coverage evenings, nights, and weekends.

Please clarify if the Trustpoint Hospital has ever been completely full.

**Response:** TrustPoint Hospital has frequently been completely full and routinely runs a wait list for admissions across all service lines. In addition to frequently being at 100% occupancy, TrustPoint Hospital has been completely full in terms of its ability to admit additional patients. In healthcare, this phenomenon is related to “throughput”. Throughput is the process and timing by which patients move into and out of the hospital. Throughput is influenced by a significant number of variables, including, but not limited to: time of admission, time of discharge, gender, chief complaint for admission, unit acuity, transportation, family or POA support, etc. Throughput is one of the most vexing problems for administrators and clinicians. On the one hand, you have beds that are either empty or will be empty upon a planned discharge. On the other hand, you have enormous pressure for admissions who cannot obtain a bed until all of the variables line up to create the vacant bed opportunity. In order to maintain 100% occupancy, all of these variables must align perfectly. This phenomenon is not at all unique to acute care hospitals. There exists a plethora of research that examines the phenomenon of throughput and occupancy rates as a function of positive patient outcomes and hospital operations. As an example, Keegan (2010) published an article addressing the impact of occupancy rates on both clinical outcomes for patients and its impact on staff health and wellbeing. The author’s findings, supported by abundant research, stands for the proposition that 85% occupancy of an acute care hospital is optimal for patient outcomes and staff health and wellbeing. Moreover, the logistics of throughput make achieving occupancy rates higher than 85% very difficult. On that basis, and consistent with the experience at TrustPoint Hospital, the applicant argues that CON bed approval based on population statistics and disease state data must provide a bed allowance buffer of 15% or more to allow for efficient and effective throughput. As an example using this rubric, if the State were to determine that a need exists for 100 beds in any applicant’s service line, that number should actually be at least 115 beds to allow for the orderly and efficient throughput of patients and the wellbeing of staff. A further example related to throughput can be easily identified from our data for fourth quarter 2015 and first quarter 2016. Over that six

month period, TrustPoint Hospital was required to divert, conservatively, an average daily census of 73.4. This equates to 1,782 patients who were denied care due to a lack of beds, or the lack of service line options to meet their clinical needs. This proposal will resolve the complex and vexing issue of throughput, access to care, and care that is timely and responsive to the clinical needs of our patients and community.

**9. Section B, Project Description, Item B.IV**

Many of the drawings included in the application are just too small to be legible and permit the Agency a **clear** understanding of what the applicant is proposing. Please provide larger, more detailed images with **legible room labels** of your project.

**Response:** See larger drawings attached as *Supplemental B.IV*.

**10. Section C, Need, Item 1. (Service Specific Criteria-Psychiatric Inpatient Services)**

Please complete the following tables to determine psychiatric bed need.

| Service Area                       | Population 2020 |                 |        | Gross Need Pop. X<br>(30 beds/100,000) |                |     | Current Beds |                |     | Net Need     |                 |      |
|------------------------------------|-----------------|-----------------|--------|----------------------------------------|----------------|-----|--------------|----------------|-----|--------------|-----------------|------|
|                                    | Adult<br>18+    | Adult 18-<br>64 | 65+    | Adult<br>18+                           | Adult<br>18-64 | 65+ | Adult<br>18+ | Adult<br>18-64 | 65+ | Adult<br>18+ | Adults<br>18-64 | 65+  |
| Rutherford and<br>Bedford Counties | 303,282         | 271,638         | 31,644 | 92                                     | 82             | 10  | 72           | 44             | 28  | 20           | 38              | (18) |

| Service Area                       | Population 2020 |                  | Gross Need Pop. X<br>(30 beds/100,000) |                  | Current Beds   |                      | Net Need       |                      |
|------------------------------------|-----------------|------------------|----------------------------------------|------------------|----------------|----------------------|----------------|----------------------|
|                                    | Child 0-12      | Adolescent 13-17 | Child 0-12                             | Adolescent 13-17 | Child 0-<br>12 | Adolescent 13-<br>17 | Child 0-<br>12 | Adolescent 13-<br>17 |
| Rutherford and<br>Bedford Counties | 72,328          | 35,342           | 22                                     | 11               | 0              | 0                    | 22             | 11                   |

*Note: The population numbers are derived by applying the 2010 actual age group percentages to the 2020 total population estimates on the DOH website. For example, in 2010, the under 12 population of both counties totaled 16.9% of the population. That same percentage (16.9%) was applied to the 2020 estimated population (from US Census Bureau) to arrive at the estimated numbers in the charts above.*

Since approximately 45% of the applicant's patients originate outside of Bedford and Rutherford counties, please complete the following chart:

**Bed Need in Applicant's Primary and Bordering Service Area, CY2020**

| County              | Adult Psych Bed Need | Shortage or (surplus) | Geri Psych Bed Need | Shortage or (surplus) |
|---------------------|----------------------|-----------------------|---------------------|-----------------------|
| Bedford             | 11                   | 11                    | 2                   | 2                     |
| Rutherford          | 71                   | (27)                  | 9                   | (19)                  |
| <b>PSA-Subtotal</b> | <b>82</b>            | <b>(16)</b>           | <b>11</b>           | <b>(17)</b>           |
| Cannon              | 1                    | 1                     | 1                   | (21)                  |
| Davidson            | 142                  | (349)                 | 17                  | (21)                  |
| Williamson          | 47                   | 30                    | 6                   | 6                     |
| Wilson              | 28                   | 28                    | 4                   | 4                     |
| <b>SSA-Subtotal</b> | <b>218</b>           | <b>(290)</b>          | <b>28</b>           | <b>(32)</b>           |
| <b>Grand Total</b>  | <b>300</b>           | <b>(306)</b>          | <b>39</b>           | <b>(49)</b>           |
|                     |                      |                       |                     |                       |

*Note: The population numbers are derived by applying the 2010 actual age group percentages for the combined population of Bedford and Rutherford Counties for adult (17 – 64) and geriatric (65+) to the 2020 total population estimates on the DOH website. For example, in 2010, the adult population of Rutherford and Bedford counties totaled 66.1% of the population. That same percentage (16.9%) was applied to the 2020 estimated population (from US Census Bureau) to arrive at the estimated numbers in the charts above. There is no statistical evidence in conclude that the population percentages of various counties (e.g., Wilson) would be any difference from the combined total of Rutherford and Bedford.*

*Also note that our projections, based on actual admissions, indicate that only about 28% of our projected Year 1 admissions will be from outside Bedford and Rutherford Counties.*



**11. Section C, Need, Item 1. (Service Specific Criteria-Acute Bed Services)**

Please address the service specific criteria for acute bed services for the addition of acute beds to the hospital's license.

**Response:** Based on the data furnished by the TN Department of Health, Acute Care Bed Need Projections for 2016 and 2010, Based on Final 2014 Hospital JARS report, there is a shortage of 31 licensed hospital beds in Bedford County, and a shortage of 102 licensed hospital beds in Rutherford County, for a total of 133 "needed" hospital beds in the two counties. This application is to add 88 beds at Trustpoint Hospital.

However, the beds being requested are not general med-surg beds, but will be utilized as psychiatric and rehab beds. Therefore, the Applicant respectfully replies that the Service Specific Criteria for Acute Bed Services are not applicable to this project.

**12. Section C, Need, Item 1. (Service Specific Criteria-Comprehensive Rehabilitation Services,)**

Please address the service specific criteria for Comprehensive Rehabilitation Services for the addition of 8 rehabilitation beds.

**Response:** Please see *Supplemental Inpatient Rehabilitation Services*.

**13. Section C, Need, Item 1. (Service Specific Criteria-Psychiatric Inpatient Services,)**

**Item B.1 (Service Area)-**Please clarify the percentage of admissions in Year One that will originate from Rutherford and Bedford Counties.

**Response:** Based on historical admissions from Rutherford and Bedford county, and data showing county of origin data for deflected/diverted admission, the applicant estimates that at least 72% of Year One admissions will originate from Rutherford and Bedford Counties.

**B.2 Involuntary Admissions and Item C.4**

Please complete the following table for 2015.

| Total Admissions |     | # of Involuntary Admissions |     | % Involuntary Admissions of Total Admission |     |
|------------------|-----|-----------------------------|-----|---------------------------------------------|-----|
| Adult 18-64      | 65+ | Adult 18-64                 | 65+ | Adult 18-64                                 | 65+ |
| 1608             | 639 | 1271                        | 267 | 79%                                         | 42% |

**Item C.1-(Relationship to applicable plans).** Your response is noted. Please verify if there are any state, city, county, and/or regional plans to consider as part of this proposal.

**Response:** There are no known state, city, county, and/or regionals plans to consider as part of this proposal.

**Item C.3 (Impact on similar Institutions supported by state appropriations):** It appears the applicant will increase involuntary admissions that may otherwise go to Middle Tennessee Mental Health Institute (MTMHI). On page 15 of the application the applicant states a 31 bed adult unit is proposed specializing in the care of patients with severe mental illness requiring highly intensive care that otherwise would be referred to Middle Tennessee Mental Health Institute or other similar institutions. If approved, please assess the impact the proposed additional 80 psychiatric beds will have on this state supported mental health institute.

**Response:** As described in this application, TrustPoint Hospital has insufficient adult and child/adolescent psychiatry beds to meet the immediate, near, and long term demand by patients. Data collected indicates Middle Tennessee Mental Health Institute (MTMHI) operates at, near, or above capacity. It is our opinion that as mental health literacy (i.e., citizens becoming increasingly informed about services available to meet their mental health needs locally) increases in Rutherford and Bedford Counties, the demand for services will only increase for all providers. It is our hope that MTMHI will see a reduction in excess demand as a result of TrustPoint Hospital's increased adult beds. As previously described, the critically important work and services provided by MTMHI are very consistently impacted by demand that exceeds capacity. In that regard, TrustPoint Hospital expects to be able to share that burden for the good

of all citizens in Rutherford and Bedford Counties. Moreover, despite their tremendous efforts and dedicated team, MTMHI is unable to timely meet the inpatient needs of patients referred by Mobile Crisis services, emergency departments, and the community. This often very long delay in care has substantial and real implications for the wellbeing of psychiatric patients and medical patients awaiting care in overcrowded emergency departments.

It is a widely publicized and studied fact that emergency departments across Tennessee and the United States suffer from severe overcrowding. One of the key contributors to overcrowding is the boarding of psychiatric patients in the emergency department while waiting for a bed to become available in either state operated or private psychiatric hospitals. The average boarding time for a psychiatric patient in the emergency department exceed 24 hours, with many patients waiting days to weeks in the emergency department for a psychiatric bed (Zeller, Calma, and Stone, 2014). The crisis of emergency department overcrowding due to prolonged boarding of psychiatric patients is well known in middle Tennessee and has been studied. In fact, the Chief Executive Officer at TrustPoint Hospital successfully defended his doctoral dissertation on this subject, having conducted a study of the impact on emergency department boarding time of psychiatric patients conducted at the St. Thomas Rutherford Hospital emergency department (Woods, 2016). In Woods' study, he deployed licensed mental health providers in the emergency department at St. Thomas Rutherford Hospital to assist the emergency department staff with the rapid triage, assessment, and dispositioning of psychiatric patients. Over a six month period, the study resulted in data from 799 psychiatric patients admitted to the St. Thomas Rutherford Hospital emergency department. The results of the study showed a nearly insignificant change in emergency department boarding time as a result of the intervention (mean boarding time > 9 hours with a great many boarding for days). When controlled for multiple variables (i.e., patient funding source, diagnosis, gender, age, etc.), the impact of the intervention on psychiatric patient boarding time did not significantly shift from the pre-intervention state. This is important in that it demonstrates, among other things, that the shortage of accessible beds is a real and serious threat to the health and wellbeing of our community. Moreover, psychiatric patients are not being cherry picked for admission to private psychiatric hospitals based on their financial status or other factors. Woods' study found that a well-insured patient is just as likely to spend hours to days in the emergency department as an indigent patient. This fact alone demonstrates the intense need and demand for a comprehensive and integrated behavioral health delivery system like that proposed by TrustPoint Hospital. Further, the inability to clear the emergency department of psychiatric patients results in delaying necessary care to those seeking emergency medical treatment for various serious and often life threatening conditions. By approving TrustPoint Hospital's CON proposal, the State will create a space to relieve MTMHI, St. Thomas Rutherford Hospital, and the community of the intense burden of needing a full continuum of integrated psychiatric services, but who are now unable to access them.

**14. Section C, Need, Item 4**

Please complete the following chart:

|                                                        | Bedford County               | Rutherford County            | Total Service Area           | State of TN Total            |
|--------------------------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Total Population-Current Year -2016                    | 50,005                       | 318,638                      | 368,643                      | 6,812,005                    |
| Total Population-Projected Year -2020                  | 53,334                       | 357,615                      | 410,949                      | 7,108,031                    |
| Total Population-% change                              | +6.7%                        | +12.2%                       | +11.5%                       | +4.3%                        |
| Age 0-17 Population 2016                               | 13,024                       | 81,906                       | 94,930                       | 23.1%                        |
| Age 0-17 Population 2020                               | 13,664                       | 90,675                       | 104,339                      | 22.7%                        |
| Age 0-17 Population-% change                           | +4.9%                        | +10.7%                       | +9.9%                        | +2.8%                        |
| Age 0-17 Population % of Total Population              | 26.0% (2016)<br>25.6% (2020) | 25.7% (2016)<br>25.4% (2020) | 25.9% (2016)<br>25.5 (2020)  | 23.1% (2016)<br>22.7% (2020) |
| Age 18+ Population – 2016                              | 36,981                       | 236,732                      | 273,713                      | 5,241,318                    |
| Age 18+ Population – 2020                              | 39,670                       | 266,940                      | 306,610                      | 5,494,030                    |
| Age 18+ Population - % change                          | +7.3%                        | +12.8%                       | +12.1%                       | +4.8%                        |
| Age 18+ Population as % of Total Population            | 74% (2016)<br>74.4% (2020)   | 74.3% (2016)<br>74.6% (2020) | 74.2% (2016)<br>74.5% (2020) | 76.9% (2016)<br>77.3% (2020) |
| Age 65+ Population – 2016                              | 3,851                        | 24,535                       | 28,386                       | 524,525                      |
| Age 65+ Population – 2020                              | 4,107                        | 27,537                       | 31,644                       | 547,319                      |
| Age 65+ Population - % change                          | +6.6%                        | +12.2%                       | +11.5%                       | +4.3%                        |
| Age 65+ Population as % of Total Population            | 7.7%                         | 7.7%                         | 7.7%                         | 7.7%                         |
| Median Age <sup>1</sup>                                | 36.4                         | 32.2                         | n/a                          | 38                           |
| Median Household Income <sup>2</sup>                   | \$39,042                     | \$53,983                     | n/a                          | \$42,943                     |
| TennCare Enrollees                                     | 13,507                       | 51,683                       | 65,190                       | 1,543,757                    |
| TennCare Enrollees as % of Total (2016 data)           | 27.0%                        | 16.2%                        | 17.7%                        | 22.7%                        |
| Persons Below Poverty Level <sup>**</sup>              | 8,200                        | 27,904                       | 36,104                       | 1,055,635                    |
| Persons Below Poverty Level as % of Total <sup>3</sup> | 17.9%                        | 11.5%                        | 12.5%                        | 17.0%                        |

The Tennessee Department of Health's Population Projections 2010-2020 should be used for the TN population projections, the US Census Bureau and the State of Tennessee Bureau of TennCare websites will be helpful in gathering the other demographic statistics.

<sup>1</sup> US Census Quickfacts, 2010; <sup>2</sup> US Census Quickfacts, 2005 – 2009; <sup>3</sup> Poverty numbers taken from US Census Quickfacts, 2009, population based on TN DOH estimates for 2009

**15. Section C, Need, Item 5**

Please update the following chart showing historical utilization of the primary and contiguous area.

**2012-2014 Regional Area Acute Care Hospitals Inpatient Psychiatric Beds**

| Facility                             | County     | 2014<br>Licensed<br>Beds | Patient Days   |                |                | Licensed Occupancy |              |              | %<br>Change<br>2012-<br>2014 |
|--------------------------------------|------------|--------------------------|----------------|----------------|----------------|--------------------|--------------|--------------|------------------------------|
|                                      |            |                          | 2012           | 2013           | 2014           | 2012               | 2013         | 2014         |                              |
| Stones River                         | Cannon     | 22                       | 5,225          | 2,787          | 1,514          | 65.1%              | 34.7%        | 18.9%        | -71.0%                       |
| TN Christian<br>(Skyline<br>Madison) | Davidson   | 102                      | 22,152         | 25,731         | 25,679         | 66.7%              | 75%          | 69.0%        | +3.4%                        |
| St. Thomas                           | Davidson   | 23                       | 5,761          | 5,094          | 2,768          | 65.8%              | 58.2%        | 33.0%        | -50.0%                       |
| Vanderbilt                           | Davidson   | 88                       | 28,201         | 27,459         | 25,019         | 88%                | 85.5%        | 77.9%        | -11.5%                       |
| Centennial                           | Davidson   | 130                      | 29,943         | 45,381         | 31,227         | 62.1%              | 94.2%        | 65.8%        | -6.0%                        |
| Summit                               | Davidson   | 0                        | 4,449          | 2,484          | n/a            | 61%                | 34%          | n/a          | n/a                          |
| TrustPoint<br>Hospital               | Rutherford | 87                       |                | 9,937          | 15,199         |                    | 54.4%        | 47.9%        | n/a                          |
| Rolling Hills                        | Williamson | 76                       | 22,705         | 24,157         | 21,207         | 77.8%              | 82.7%        | 76.5%        | -1.7%                        |
| UMC                                  | Wilson     | 0                        | 8,500          | 7,239          | n/a            | 47.5%              | 40.5%        | n/a          | n/a                          |
| <b>Area total w/o<br/>MTMHI</b>      |            | <b>528</b>               | <b>126,936</b> | <b>150,269</b> | <b>122,613</b> | <b>64.2%</b>       | <b>76%</b>   | <b>64.6%</b> | <b>+0.9%</b>                 |
| MTMHI                                | Davidson   | 207                      | 60,614         | 60,819         | 64,670         | 55.4%              | 55.5%        | 85.6%        | +54.5%                       |
| <b>Total</b>                         |            | <b>735</b>               | <b>187,550</b> | <b>211,088</b> | <b>187,283</b> | <b>61%</b>         | <b>68.7%</b> | <b>69.8%</b> | <b>+14.4%</b>                |

*Note: Some of the above data may be suspect, as some patient day utilization figures may be higher if mental health care was reported by the hospital as alcohol-related care on the JARS. Utilization figures on the above chart are taken from the mental health section of the JARS, only, and do not include alcohol-related patient days.*



**16. Section C, Need, Item 6**

Please clarify the need for additional beds at this time (without the implementation of 28 beds approved but not yet in service) with the following 1<sup>st</sup> quarter 2016 occupancies: Geriatric Psych 84%, Rehabilitation, 84%, Medical 59%.

**Response:** The state correctly points out that TrustPoint Hospital has not implemented the remaining 28 beds under its prior CON. As previously described, the implementation of the prior CON was conceived in two phases. Phase I was completed with the initial reduction in Physical Medicine/Rehabilitation beds from 27 to 19 and the addition of 13 adult psychiatric beds for the treatment of Affective Disorders. At the time of the prior CON filing, TrustPoint Hospital submitted a proposal that would increase psychiatric beds and decrease Physical Medicine/Rehabilitation beds. This decision was driven by three factors: (1) TrustPoint did not have the land or physical space to make a more comprehensive CON request, (2) the owners of TrustPoint Hospital did not have the financial capability to develop a more comprehensive, integrated behavioral health system, and (3) the decision to decrease Physical Medicine/Rehabilitation and increase adult and geriatric services was driven by both population demand and the specific physical plant and regulatory constraints on the placement of beds and services.

TrustPoint Hospital stated in its prior application and presentation that the request being made at that time was insufficient to meet the comprehensive needs of the community, citing specifically the need for additional land and financial resources. TrustPoint Hospital promised to come back to the state at the first opportunity that presented itself to resolve these challenges. On May 1, 2016, Acadia Healthcare Company, Inc. became the owner of TrustPoint Hospital. The shared vision of Acadia Healthcare Company, Inc. and the leadership of TrustPoint Hospital are aligned in mission and commitment to developing a fully integrated healthcare system to provide for the near and long term care of patients suffering mental health and physical medicine/rehabilitation disorders. Acadia Healthcare Company, Inc. is the nation's leader in developing and operating similarly situated integrated behavioral health and medical services. Under this new ownership relationship, the leadership at TrustPoint Hospital was finally in a position to fully address the comprehensive psychiatric and physical medicine/rehabilitation needs of the community, without the severely limiting factors associated with space constraints inherent in the existing building. Rather than completing Phase II of the prior CON, TrustPoint Hospital has determined that it is in the best interest of patients and the community that those remaining 28 beds be redistributed across the new construction and bed envelope for the hospital. By re-conceptualizing the allocation of space and services under this proposal, we will avoid unnecessary disruption to services, access to care, and dislocation of existing programs. In simplest terms, we will no longer have to struggle to find space necessary to effectively and efficiently provide integrated care to meet the tremendous needs of psychiatric and physical medicine/rehabilitation patients.

With respect to the occupancy rates referenced in the question, it is important to refer back to the earlier discussion on throughput (Supplemental Questions 8 and 13). As evidenced by the literature cited previously, 84% occupancy is in fact fully occupied. The challenges associated with throughput make it very difficult to achieve occupancy rates much beyond 85%.

Nevertheless, in order to achieve 84% occupancy requires many days where occupancy is well above that number. It is routinely the case, in all programs and services at TrustPoint Hospital, that the occupancy is 95-100%. This is reflected in our diversion data (Attachment B.II.B.I). The 59% occupancy rate listed for Medical Psychiatry/Detox does not reflect poor performance by the service line. Rather, it reflects the intense pressure for adult psychiatry beds. Specifically, please note the average daily census (40) and occupancy rate (91%) for adult psychiatry in first quarter 2016. As a function of throughput, this extraordinary occupancy rate cannot actually be achieved unless there are more adult patients in-house routinely than can be accommodated in the existing bed envelope for that service. TrustPoint Hospital receives many adult and geriatric psychiatry patients who are medically fragile and would otherwise be denied access to care by more traditional free-standing psychiatric hospitals, including MTMHI. However, the degree of medical compromise is not always sufficient to authorize payment from insurance carriers under a primary medical diagnosis. At TrustPoint Hospital, we believe strongly that these medically fragile patients deserve care that is comprehensive with respect to their medical and psychiatric complaints. To care for these patients who otherwise would fall through the cracks, they are admitted as medical boarders to the medical psychiatry/detox program to ensure they receive care that is tailored to their specific clinical needs. However, for census tracking purposes, those admissions are categorized as adult or geriatric psychiatry admissions versus medical admissions. At any given time, 3-4 medical beds are utilized by this population. This fact reflects that the actual occupancy rate for the medical psychiatry/detox unit is almost always greater than 90%. Again, the staggering diversion detail best tells this story. Under the new construction proposed in this application, Medical Psychiatry/Detox will be able to fulfill its 18 bed plan, alleviating the pressure for denials associated with the myriad reasons patients seek care for their psychiatric, medical psychiatric/detox, and physical medicine/rehabilitation needs.

On June 20, 2016 what was the census and licensed occupancy at TrustPoint Hospital for the following units: Medical Detox, Adult Psychiatric, Geriatric Psychiatric, and Rehabilitation?

**Response:** On June 20<sup>th</sup>, the census at TrustPoint Hospital was 91, or 91%. The unit breakdown follows:

|                           | Census | Occupancy Rate. |
|---------------------------|--------|-----------------|
| Medical Psychiatry/Detox: | 10     | 100%            |
| Adult Psychiatry          | 44     | 100%            |
| Geriatric Psychiatry      | 26     | 93%             |
| Physical Medicine/Rehab*  | 11     | 58%             |

\* Physical Medicine/Rehabilitation was lower than its average on June 20, 2016. As always, that number has increased and on the day of this writing (June 23, 2016) the census is 15 or 79%, with 7 pending admissions.



Please project the hospital's overall inpatient utilization in the following table.

| Year          | Beds | Patient Days | ADC | % Occupancy |
|---------------|------|--------------|-----|-------------|
| Year 1 (2019) | 217  | 51,465       | 141 | 65%         |
| Year 2 (2020) | 217  | 56,575       | 155 | 71%         |

Please complete the following table:

**TrustPoint Hospital Historical Inpatient Utilization**

| Licensed Beds 2015 (Beginning of Year) | 2013 Patient days | 2014 PDs | 2015 PDs | 2016 PDs (Jan-June) (Projected as of June 23, 2016) | 2013-2015 % chng. | 2013 % Occ. | 2014 % Occ | 2015 % Occ | 2016 PDs (Jan-June) % Occ. |
|----------------------------------------|-------------------|----------|----------|-----------------------------------------------------|-------------------|-------------|------------|------------|----------------------------|
| 96                                     | 14,262            | 21,285   | 26,734   | 15,600                                              | +88%              | 51%         | 68%        | 76%        | 85%                        |

Please update the following charts for TrustPoint Hospital:

**TrustPoint Hospital Adult (18-64) Psychiatric Unit  
Historical and Projected Utilization**

| Variable                                      | 2013  | 2014  | 2015   | % Change '13-'15 | Year 1 2019 (Entire Hospital) | Year 2 2020 (Entire Hospital) |
|-----------------------------------------------|-------|-------|--------|------------------|-------------------------------|-------------------------------|
| Adult Psych Licensed Beds (Beginning of Year) | 20    | 25    | 31     |                  | 111                           | 111                           |
| Adult Psych. Admissions                       | 704   | 1,268 | 1,506  | +114%            | 3,148                         | 3,513                         |
| Adult Psych. Pat. Days                        | 4,042 | 7,751 | 10,871 | +169%            | 25,185                        | 28,105                        |
| Adult Psych ADC                               | 11    | 21    | 30     |                  | 69                            | 77                            |
| Adult Psych % Lic. Occ.                       | 56%   | 85%   | 96%    |                  | 62%                           | 69%                           |

**TrustPoint Hospital Geriatric (65+) Psychiatric Unit  
Historical and Projected Utilization**

| Variable                                       | 2013  | 2014  | 2015  | % Change<br>'13-'15 | Year 1<br>2019 | Year 2<br>2020 |
|------------------------------------------------|-------|-------|-------|---------------------|----------------|----------------|
| Geriatric Psych. Lic. Beds (Beginning of Year) | 20    | 25    | 28    |                     | 36             | 36             |
| Geriatric Psych. Admissions                    | 474   | 606   | 639   | +35%                | 758            | 758            |
| Geriatric Psych. Pat. Days                     | 5,912 | 7,490 | 8,560 | +45%                | 9,855          | 9,855          |
| Geriatric Psych. ADC                           | 16    | 21    | 23    |                     | 27             | 27             |
| Geriatric Psych. % Lic. Occ.                   | 81%   | 82%   | 84%   |                     | 75%            | 75%            |

**TrustPoint Hospital's Rehabilitation Unit  
Historical and Projected Utilization**

| Variable                                     | 2013  | 2014  | 2015  | % Change<br>'13-'15 | Year 1<br>2019<br>(Entire Hospital) | Year 2<br>2020<br>(Entire Hospital) |
|----------------------------------------------|-------|-------|-------|---------------------|-------------------------------------|-------------------------------------|
| Rehabilitation Lic. Beds (Beginning of Year) | 27    | 27    | 27    |                     | 24                                  | 24                                  |
| Rehabilitation Admissions                    | 316   | 389   | 398   | +26%                | 449                                 | 463                                 |
| Rehabilitation Pat. Days                     | 4,121 | 5,252 | 5,256 | +28%                | 5,840                               | 6,023                               |
| Rehabilitation ADC                           | 11    | 14    | 14    |                     | 16.0                                | 16.5                                |
| Rehabilitation % Lic. Occ.                   | 42%   | 53%   | 53%   |                     | 67%                                 | 69%                                 |

**TrustPoint Hospital Medical Detox Unit  
Historical and Projected Utilization**

| Variable                                 | 2013 | 2014 | 2015  | % Change<br>'13-'15 | Year 1<br>2019 | Year 2<br>2020 |
|------------------------------------------|------|------|-------|---------------------|----------------|----------------|
| Medical Lic. Beds<br>(Beginning of Year) | 9    | 9    | 10    |                     | 18             | 18             |
| Medical Admissions                       | 31   | 193  | 412   | +1,229%             | 876            | 986            |
| Medical Pat. Days                        | 187  | 792  | 2,047 | +995%               | 4,380          | 4,928          |
| Medical ADC                              | 0.5  | 2    | 6     |                     | 12.0           | 13.5           |
| Medical % Lic. Occ.                      | 6%   | 24%  | 56%   |                     | 67%            | 75%            |

**17. Section C, Economic Feasibility, Item 1**

It is noted the Project Cost Chart has \$4,810,000 assigned for the acquisition of site. Is this the cost of the purchase of the 12 acre tract for the proposed addition?

**Response:** Yes

It is noted “renovation” is in parenthesis next to Construction Costs in the Project Costs Chart. Please clarify.

**Response:** This “Renovation” entry is an error. The \$40,988,716 represents the estimated cost to construct the new building. Please see Replacement Page 36.

**18. Section C, Economic Feasibility, Item 2**

It is noted a letter dated June 2, 2016 in Attachment C.EF.2 notes the project will be financed through a revolving line of credit. On page 37 the applicant notes the funding for the proposed project will be cash reserves. Please clarify.

**Response:** Acadia Healthcare Company, Inc. intends to fund this project from its revolving line of credit.

**19. Section C, Economic Feasibility, Item 4 (Historical and Projected Data Charts)**

What calendar years correspond with Year 1, Year 2, and Year 3 in the Projected Data Chart?

**Response:** Year 1 of the Projected Data Chart represents calendar 2019. Year 2 of the Projected Data Chart represents calendar 2020. Year 3 of the Projected Data Chart represents calendar 2021.

Revenue – Line B.4 - for both charts, other gross revenue is noted as Physician Billings. What accounts for the increase in this category from \$41,964 in 2013 of the Historical Data Chart to \$1,116,079 in Year 1 of the Projected Data Chart?

**Response:** The applicant bills professional fees for employed medical staff only. The hospital employed its first physician in late 2013 and since then the percentage of the medical staff that are employed has steadily grown. The applicant has assumed this trend will continue in the financial projections that are summarized on the Project Data Chart.

What are the total patient days for “Line A. Utilization/Occupancy Rate” for each year in both the Historical Data Chart and Projected Data Chart?

**Response:** The total inpatient days underlying the average daily inpatient census previously provided on Line A of the Historical Data Chart and Projected Data Chart are summarized below.

Historical Data Chart – Entire Hospital

| Chart Column Heading | Calendar Year | Average Daily Inpatient Census | Total Inpatient Days |
|----------------------|---------------|--------------------------------|----------------------|
| Yr 1                 | 2013          | 39                             | 14,262               |
| Yr 2                 | 2014          | 58                             | 21,285               |
| Yr 3                 | 2015          | 73                             | 26,734               |

Projected Data Chart – Addition Only - Including 32 Residential Treatment Beds

| Chart Column Heading | Calendar Year | Average Daily Inpatient Census | Total Inpatient Days |
|----------------------|---------------|--------------------------------|----------------------|
| Yr 1                 | 2019          | 64                             | 23,506               |
| Yr 2                 | 2020          | 79                             | 28,704               |
| Yr 3                 | 2021          | 90                             | 32,940               |

Please explain Item E. in the Historical Data Chart listed as “E.H.R. incentives/dietary”.

**Response:** Item E. of the Historical Data Chart primarily consists of revenues earned for implementing and meaningfully using a qualified Electronic Health Record (“E.H.R”) under the Medicare and Medicaid E.H.R. Incentive Program. Dietary revenues earned for food sold in the hospital cafeteria are also included in Item E. of the Historical Data Chart.

Please clarify why there is no designation in the Projected Data Chart for “E.H.R. incentives, but only dietary.

**Response:** The Electronic Health Record (“E.H.R”) incentive revenues that are included in the applicant’s historical financial results were temporary in nature and therefore not included in any forward projections.

What involves contract services and professional fees in “Item D.9 Other Expenses” in the Projected Data Chart on page 43?

**Response:** The Contract Services line of the Other Expense detail represents fees paid to vendors for non-physician services such as pharmacy, information technology, coding, medical transcription, transportation and laboratory services. The Professional Fees line represents fees paid to Medical Directors of the different service lines as well as legal and consulting expenses.

**20. Section C, Economic Feasibility, Item 5**

Your response is noted. Please complete the following table identifying the project's gross charge, average deduction from operating revenue, and average net charge per patient day. Please divide the total patient days in Year One of the Projected Data Chart into the total gross charges, deductions from operating revenue total, and total net charges to calculate the charges.

**Response:** Please note that the values inserted below include the impact of 32 residential treatment beds. The applicant has included a column for projection year 3 consistent with the Projected Data Chart.

|                                                            | Year One | Year Two | Year Three |
|------------------------------------------------------------|----------|----------|------------|
| Average Gross Charge (Gross charges/total days)            | 1,536    | 1,514    | 1,499      |
| Average Deduction (Total Deductions/total days)            | 854      | 840      | 815        |
| Average net Charge Total Net Operating Revenue/total days) | 683      | 674      | 685        |



**21. Section C, Economic Feasibility, Item 9 and Section C, Need, Item 1. (Service Specific Criteria-Psychiatric Inpatient Services) C.5**

Please complete the following table:

**Response:** Please note that the values inserted below include the impact of 32 residential treatment beds. The applicant has included a column for projection year 3 consistent with the Projected Data Chart.

| <b>Applicant's Projected Charity Care</b>      |               |               |               |
|------------------------------------------------|---------------|---------------|---------------|
| <b>Projected Financial Performance</b>         | <b>Year 1</b> | <b>Year 2</b> | <b>Year 3</b> |
| Total Patient Days                             | 23,506        | 28,704        | 32,940        |
| Gross Revenue                                  | 36,112,279    | 43,457,943    | 49,386,690    |
| Average Gross Revenue/PPD<br>(per patient day) | 1,536         | 1,514         | 1,499         |
| Provision for Charity                          | 227,475       | 273,692       | 311,173       |
| Total Charity Care Patients                    | 19            | 23            | 27            |

Please complete the following table for the payor mix in Year 1 is shown in the table below. Please use gross revenue amounts.

**Response:** Please note that the values inserted below include the impact of 32 residential treatment beds.

| <b>Payor Source, Year 1</b>                |                      |                        |
|--------------------------------------------|----------------------|------------------------|
| <b>Payor Source</b>                        | <b>Gross Revenue</b> | <b>As a % of Total</b> |
| Medicare<br>(Including Medicare Advantage) | 10,022,503           | 27%                    |
| TennCare/Medicaid                          | 13,738,367           | 38%                    |
| Commercial                                 | 12,116,679           | 34%                    |
| Uncompensated                              | 234,730              | 1%                     |
| Other                                      | 0                    | 0%                     |
| Total Gross Revenue                        | 36,112,279           | 100%                   |

**22. Section C, Economic Feasibility, Item 10**

Please provide copies of Acadia Healthcare Company Inc.'s balance sheet and income statements from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable.

**Response:** Please see attached and current Form 10-K and Form 10-Q for Acadia Healthcare Company, Inc. These two documents are quite large and self-identified.

### 23. Section C, Contribution to Orderly Development, Item 3

Please complete the following table for the proposed Year One direct patient care staffing.

| Position               | Child and Adolescent Psychiatry | Adult Psychiatry | Geriatric Psychiatry | Physical Medicine | Total            |
|------------------------|---------------------------------|------------------|----------------------|-------------------|------------------|
| Director               | 1                               | 2                | 1                    | 1                 | 5                |
| Nurse Mgr.             | 1                               | 4                | 1                    | 1                 | 7                |
| RN/LPN                 | 6                               | 20               | 10                   | 8                 | 44               |
| Patient Care Tech      | 7                               | 21               | 7                    | 8                 | 43               |
| Physical Therapist     | PRN                             | PRN              | 1                    | 4                 | 5 + PRN          |
| Occupational Therapist | PRN                             | PRN              | PRN                  | 4                 | 4 + PRN          |
| Speech Therapist       | PRN                             | PRN              | PRN                  | 2                 | 2 + PRN          |
| Other – Clerical       | 1                               | 4                | 2                    | 1                 | 8                |
| <b>Total</b>           | <b>16 + PRN</b>                 | <b>51 + PRN</b>  | <b>22 + PRN</b>      | <b>29</b>         | <b>118 + PRN</b> |

\* PRN means the services will be provided as needed. However, these populations tend to be low utilizers of the services listed.

It is noted the applicant will be providing outpatient, intensive outpatient, and partial hospitalization. Please list staffing of these programs by type and number, whether this staff will be shared with any other programs, especially inpatient programs, any age (adult, child/adolescent) or practice specialties. Also include physicians or advance practice nurses who will practice in these programs but will not specifically be on staff.

**Response:** TrustPoint Hospital proposes to develop a full continuum of care for the psychiatric patient population. Services will include the outpatient ClearPath Behavioral Health clinic as described in response to Supplemental Question 5. TrustPoint Hospital will expand its IOP program and develop a PHP program. The IOP program will be staffed by licensed social workers and counselors, supported by a psychiatrist and/or psychiatric nurse practitioner under the supervision of a psychiatrist. The social worker/counselor staff will be allocated at approximately one clinician per 10 patients. The psychiatrist and/or nurse practitioner will provide medical oversight to the program on a part time basis. All staff, including medical staff, will be employees of TrustPoint Hospital. The IOP program will expand to allow for different clinical tracks to more specifically meet the needs of patients (e.g., PTSD, Affective Disorders, Court Diversion, Military Specialty Services, Substance Use/Abuse Disorders, Survivors, etc.). IOP staff will not be shared with other programs, however, there is an expectation of close collaboration between programs to ensure patients are receiving care and transitions that best

meet their clinical, social, spiritual, and other needs. Physicians and nurse practitioners will likely have additional duties elsewhere in the hospital, depending upon the time commitment required to meet the needs of the IOP program.

Like the IOP program, the PHP program will be developed to care for individuals requiring more intensive care than can be provided in IOP. The program will operate five days each week for approximately 6 hours each day. Patients admitted to this program will meet both CMS and private insurance level of care criteria for participation in the program. Services will be provided to patients with all forms of insurance, private pay, and charity. This program is intended to be an alternative to inpatient, where appropriate, or a step down from inpatient. The primary focus of this program is patient safety, management of symptoms, and integration back to home and independent living. The program will meet all CMS regulations for this level of care. The PHP program will be developed to have multiple clinical tracks (e.g., Affective Disorders, Thought Disorders, Cognitive/Behavioral Disorders, Substance Use/Abuse Disorders, Pediatric Psychiatric Disorders, etc.). The program will be staffed by registered nurses, licensed social workers and counselors, patient care technicians, psychiatrist(s) and psychiatric nurse practitioner(s), and primary medicine physician and/or nurse practitioner. All staff, including medical staff, will be employees of TrustPoint Hospital. Registered nurses will be employed on an approximately 1:15 ratio. Patient care technicians will be employed on an approximately 1:10 ratio, licensed social workers and counselors will be employed on an approximately 1:10 ratio, medical staff will be employed in sufficient numbers to meet the psychiatric and medical needs of the patients. PHP staff will not be shared with other programs, however, there is an expectation of close collaboration between programs to ensure patients are receiving care and transitions that best meet their clinical, social, spiritual, and other needs. Physicians and nurse practitioners will likely have additional duties elsewhere in the hospital, depending upon the time commitment required to meet the needs of the PHP program. A psychiatrist will provide the medical leadership for the PHP program.

**24. Section C, Contribution to Orderly Development, Item 7**

The documentation of Joint Commission Accreditation appears to be expired. Please submit current Joint Commission Accreditation documentation.

**Response:** Please see *Supplemental C.OD.7.c*, the current Joint Commission Accreditation certificate.

**25. Proof of Publication**

Please submit a copy of the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit which is supplied by the newspaper as proof of the publication of the letter of intent.

**Response:** Please see attached affidavit and tear page.

### References

- Keegan, A. D. (2010). Hospital bed occupancy: more than queuing for a bed. *The Medical Journal of Australia*, 193(5), 291-293.
- Woods, J. (2016). *Impact on emergency department boarding time for psychiatric patients with and without mental health consultation-liaison*. Doctoral Dissertation at American Sentinel University.
- Zeller, S., Calma, N., and Stone, A. (2014). Effects of a dedicated regional psychiatric emergency service on boarding of psychiatric patients in area emergency departments. *Western Journal of Emergency Medicine*, 15(1):1-6.

June 27, 2016  
9:26 am

Heather Dawbarn, Registrar  
Rutherford County Tennessee  
Rec #: 871571  
Rec'd: 20.00 Instrument #: 2026942  
State: 12930.00  
Clerk: 1.00 Recorded  
Other: 2.00 6/23/2016 at 10:10 AM  
Total: 12973.00 in  
Record Book 1477 Pgs 2976-2979

FROM: Fred David Johnson  
TO: Polaris Hospital Holdings, LLC, a Nevada limited liability company

|                                                                                                                              |                    |                                        |
|------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------------------------|
| Address New Owner as follows:                                                                                                | Send Tax Bills to: | Tax-Parcel No.                         |
| Polaris Hospital Holdings, LLC<br>c/o Acadia Healthcare Company, Inc.<br>6100 Tower Circle, Suite 1000<br>Franklin, TN 37067 | Same               | Map 79;<br>Parcels 73, 73.01 and<br>76 |

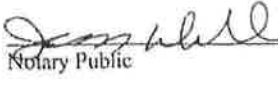
THIS INSTRUMENT PREPARED BY: Waller Lunsden Dortch & Davis, LLP, Nicholas C. Mann, Esq., 511 Union Street, Suite 2700, Nashville, Tennessee 37219

STATE OF TENNESSEE)  
COUNTY OF WILLIAMSON)

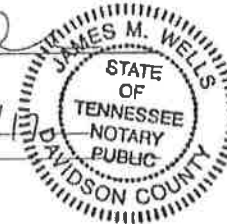
The actual consideration or value, whichever is greater, for this transfer is \$3,500,000.00.

  
Affiant

Subscribed and sworn to before me, this the 22nd day of June, 2016.

  
Notary Public

My Comm. Expires: 11/6/17



### SPECIAL WARRANTY DEED

FOR AND IN CONSIDERATION OF the sum of Ten Dollars, cash in hand paid by the hereinafter named GRANTEE, and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, Fred David Johnson, hereinafter called "GRANTOR", has bargained and sold, and by these presents does transfer and convey unto Polaris Hospital Holdings, LLC, a Nevada limited liability company, hereinafter called "GRANTEE", its successors and assigns, certain tracts or parcels of land in Rutherford County, State of Tennessee, described as follows, to wit:

#### **TRACT 1:**

Land in the 13th Civil District of Rutherford County, Tennessee, and being bounded and described as follows:

Beginning in the center of Manson Pike at the northeast corner of this lot, the northwest corner of the Johnson formerly T.V.A. lot; and running thence with wire fence, south 27° west 18.3 poles to the southwest corner

(4813-2480-2097.)



of the Johnson lot; thence north 63 1/2° west 37.6 poles to small cedar stump, stake and pile of stone in the east line of the Med Harding Farm; thence with his east line, north 1 1/2° east 11.7 poles to the center of the aforesaid Manson Pike; thence with the center of Manson Pike around a curve to the right approximately 9 degrees as follows: south 86° east 11.6 poles; thence south 82 1/2° east 5.5 poles; thence south 75° east 4.5 poles; thence south 66° east 5.8 poles; thence south 62° east 16.8 poles to the point of beginning, containing 4.6 acres, according to survey made by John D. Kerr, County Surveyor, on February 15, 1944.

Being the same property conveyed Fred Johnson and wife, Mrs. Fred Johnson, by deed from R. B. Baxter and wife, Ray Cole Baxter, of record in Book 93, page 247, dated September 25, 1944, Register's Office for Rutherford County, Tennessee. The said Fred Johnson and wife, Annie Mae Johnson (a/k/a Mrs. Fred Johnson) both having since died. Fred Johnson having predeceased, his wife, Annie Mae Johnson. The property is now devised to Fred David Johnson (son), pursuant to the Last Will and Testament of Annie Mae Johnson of record in Will Book 58, page 683, Probate Office, Rutherford County, Tennessee.

Included but specifically excluded is the property conveyed to Rutherford County, Tennessee by deed of record in Book 479, page 332, dated March 27, 1992, Register's Office for Rutherford County, Tennessee.

#### TRACT 2:

A tract of land lying approximately 1.3 miles northwest of the City of Murfreesboro and 0.6 mile west of U.S. Highway No. 41 and 70, in the 13th Civil District of Rutherford County, Tennessee, as shown on a map filed in Box "Y" in the Register's Office of Rutherford County, Tennessee, said tract being more particularly described as follows:

Beginning at a point in the center line of a road, a corner to the land of R. L. Smith and the land acquired by the Tennessee Valley Authority in the name of the United States of America designated as Tract No. CMB-145, said point being the most northerly corner of the tract herein described (Tract No. CMB-145); thence with the center line of the road S. 59° 00' E., 200 feet to a point; thence, leaving the road and with R.L. Smith's line, S. 31° 00' W., 300 feet to a point; thence N. 59° 00' W., 200 feet to a point; thence N. 31° 00' E., 300 feet to the point of beginning, and containing 1.38 acres, more or less. Subject to such rights as may be vested in the county or state to a right of way for a public road and to such right as may be vested in third parties to a transmission line right of way.

Being the same property conveyed to Annie Mae Johnson (a/k/a Mrs. Fred Johnson), by deed from Tennessee Valley Authority, of record in Book 90, page 324, dated June 24, 1941, Register's Office for Rutherford County,

4813-2480-2097.1

Tennessee. The said Annie Mae Johnson (a/k/a Mrs. Fred Johnson) having since died. The property is now devised to Fred David Johnson (son), pursuant to the Last Will and Testament of Annie Mae Johnson of record in Will Book 58, page 683, Probate Office, Rutherford County, Tennessee.

**TRACT 3:**

Land in the 13th Civil District of Rutherford County, Tennessee, and described according to certificate of Survey made by W. Henry Huddleston, III, Civil Engineer, dated August 19, 1964, as follows:

Beginning at a steel pin in the south line of Manson Pike, 25.0 feet south of the center line and in the west line of Fred Johnson's property; thence S 1° 06' W, 350.6 feet along Johnson's west line to a steel pin; thence N 86° 09' W, 166.7 feet to a steel pin; thence N 3° 51' E, 350.0 feet to a steel pin in the south line of Manson Pike; thence S 86° 09' E, 150.0 feet along said south line to the point of beginning being an area of 1.27 acre, and being generally bounded as follows: on the East by property of Fred Johnson; on the South by C.A. Glaze; on the West by Paul Hooper, and on the North by the Manson Pike.

Being the same property conveyed to Fred Johnson and wife, Annie Mae Johnson (a/k/a Mrs. Fred Johnson), by deed from W. B. Hamaker, Jr. and wife, Jimmie Hamaker, of record in Book 156, page 274, dated September 14, 1964, Register's Office of Rutherford County, Tennessee. The said Fred Johnson and wife, Annie Mae Johnson (a/k/a Mrs. Fred Johnson) both having since died. Fred Johnson having predeceased, his wife, Annie Mae Johnson. The property is now devised to Fred David Johnson (son), pursuant to the Last Will and Testament of Annie Mae Johnson of record in Will Book 58, page 683, Probate Office, Rutherford County, Tennessee.

Said property is transferred subject to the limitations, restrictions, and encumbrances set forth below.

1. Property Taxes for 2016, which have been prorated.
2. Consolidate Utility District Right of Way Easement to set fire hydrant of record in Record Book 552, page 3682, said Register's Office. (Tract 1)
3. Water Line Easement and Temporary Construction Easement of record in Record Book 1083, page 2470, as amended in Record Book 1128, page 3569, said Register's Office. (Tract 2)
4. Title to that portion of the premises embraced within the bounds of any streets, roads or highways.
5. Right of Tennessee Valley Authority to Transmission Right of Way. (Tract

4813-2480-2097.1

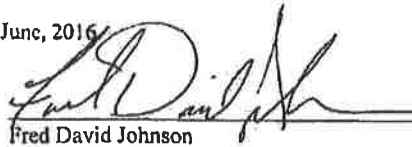
**June 27, 2016****9:26 am**

2)

This is improved property located at 2019 Manson Pike, 2007, 2027, 2039 and 2047 Wilkinson Pike, Murfreesboro, Tennessee 37129.

TO HAVE AND TO HOLD the said tracts or parcels of land, with the appurtenances, estate, title and interest thereto belonging to the said GRANTEE, its successors and assigns, forever, and GRANTOR further covenants and binds himself, his heirs and assigns to warrant specially and forever defend the title to said real estate to GRANTEE, its successors and assigns, against the lawful claims of all persons claiming by, through and under GRANTOR (other than claims arising out of the matters set forth above), but not further or otherwise. Wherever used, the singular number shall include the plural, the plural the singular, and the use of any gender shall be applicable to all genders.

WITNESS my hand this 22nd day of June, 2016

  
Fred David Johnson

STATE OF TENNESSEE)  
COUNTY OF WILLIAMSON)

Personally appeared before me, the undersigned, a Notary Public in and for said County and State, the within named Fred David Johnson, the bargainor, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who acknowledged that he executed the within instrument for the purposes therein contained.

Witness my hand and seal, at office in Brentwood, Tennessee, this the 22nd day of June, 2016.

My Commission Expires: 11/6/17



4813-2480-2097.1

June 27, 2016

9:26 am

QUITCLAIM DEED



|                                                                                                                              |                    |                                       |
|------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------|
| Address New Owner as Follows:                                                                                                | Send Tax Bills To: | Map-Parcel No.                        |
| Polaris Hospital Holdings, LLC<br>c/o Acadia Healthcare Company, Inc.<br>6100 Tower Circle, Suite 1000<br>Franklin, TN 37067 | (same)             | Map 79<br>Parcels 73, 73.01<br>and 76 |

This instrument prepared by: Nicholas C. Mann, Esq., Waller Lansden Dortch & Davis, LLP, 511 Union Street, Suite 2700, Nashville, Tennessee 37219  
STATE OF TENNESSEE)  
COUNTY OF WILLIAMSON)

The actual consideration for this transfer is \$-0-.

  
Affiant

Subscribed and sworn to before me, this the 22nd day of June, 2016.

   
NOTARY PUBLIC  
Commission Expires: 11/6/17

FOR AND IN CONSIDERATION of Ten Dollars (\$10.00), and other good and valuable consideration, Fred David Johnson ("Grantor"), by these presents, does hereby quitclaim and convey unto Polaris Hospital Holdings, LLC, a Nevada limited liability company ("Grantee"), its successors and assigns, all his right, title and interest, in and to the following described land in Rutherford County, Tennessee:

Land in the 13<sup>th</sup> Civil District of Rutherford County, Tennessee, being a part of Book 90, page 324, part of Book 93, page 247, and all of Book 156, page 274, Register's Office for said County, more particularly described as follows:

Beginning in the West right of way of North Thompson Lane at the South right of way of Wilkinson Pike; thence along said North Thompson Lane S 26° 46' 27" W, 232.21 feet to the North line of Lot 1 on the Plan of Polaris Hospital of record in Plat Book 36, page 106, said Register's Office; thence leaving said West right of way N 63° 30' W, 818.48 feet to an iron pin; thence S 00° 15' 26" E, 184.59 feet to a post; thence N 87° 35' 32" W, 166.49 feet to a post;

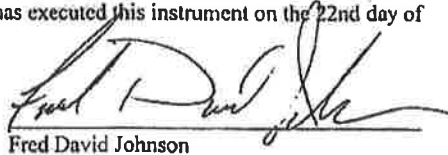
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**June 27, 2016****9:26 am**

thence N 02° 22' 22" E, 351.24 feet to an iron pin in the South right of way of said Wilkinson Pike (formerly Manson Pike); thence with said Wilkinson Pike S 87° 49' 38" E, 331.22 feet; thence along a curve to the right, having a radius of 640 feet, a distance of 281.85 feet; thence continuing with said Pike S 62° 35' 41" E, 194.92 feet; thence S 29° 49' 36" E, 27.72 feet; thence S 60° 54' 37" E, 168.08 feet; thence S 51° 17' 05" E, 50.99 feet; thence S 33° 38' 25" E, 23.95 feet to the Point of Beginning and containing 6.30 acres, more or less.

Being the same property conveyed Fred Johnson and wife, Mrs. Fred Johnson, by deed from R. B. Baxter and wife, Ray Cole Baxter, of record in Book 93, page 247, dated September 25, 1944, Register's Office for Rutherford County, Tennessee; conveyed to Annie Mae Johnson (a/k/a Mrs. Fred Johnson), by deed from Tennessee Valley Authority, of record in Book 90, page 324, dated June 24, 1941, said Register's Office; and conveyed to Fred Johnson and wife, Annie Mae Johnson (a/k/a Mrs. Fred Johnson), by deed from W. B. Hamaker, Jr. and wife, Jimmie Hamaker, of record in Book 156, page 274, dated September 14, 1964, said Register's Office. The said Fred Johnson and wife, Annie Mae Johnson (a/k/a Mrs. Fred Johnson) both having since died, Fred Johnson having predeceased, his wife, Annie Mae Johnson. The property is now devised to Fred David Johnson (son), pursuant to the Last Will and Testament of Annie Mae Johnson of record in Will Book 58, page 683, Probate Office, Rutherford County, Tennessee.

IN WITNESS WHEREOF, Grantor has executed this instrument on the 22nd day of  
June, 2016.



Fred David Johnson

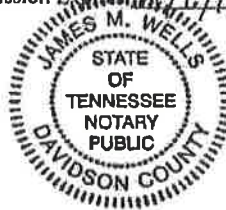
**June 27, 2016****9:26 am**

STATE OF TENNESSEE )  
COUNTY OF WILLIAMSON)

Personally appeared before me, the undersigned, a Notary Public in and for said County and State, the within named Fred David Johnson, the bargainer, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who acknowledged that he executed the within instrument for the purposes therein contained.

Witness my hand and seal, at office in Brentwood, Tennessee, this the 22nd day of June, 2016.

  
NOTARY PUBLIC  
My Commission Expires 11/1/17



Heather Dabbs, Register  
Rutherford County Tennessee  
Rec #: 871571  
Rec'd: 15.00 Instrument #: 2026943  
State: 0.00  
Clerk: 0.00 Recorded  
Other: 2.00 6/23/2016 at 10:10 AM  
Total: 17.00 In  
Record Book 1477 Page 2980-2982

4853-2321-9249.1

-3-

June 27, 2016

9:26 am

Heather Osborn, Register  
Rutherford County Tennessee  
Reg #: 849249  
Rec'd: 15.00 Instrument #: 2024603  
State: 1831.50  
Clark: 1.00 Recorded  
Other: 2.00 5/10/2016 at 12:30 PM  
Total: 1849.50 in  
Record Book 1474 Pgs 1128-1130

FROM: Dean Jobe and wife, Shannon Jobe

TO: Polaris Hospital Holdings, LLC

Address New Owner as follows:

Send Tax Bills to:

Map-Parcel No.

Polaris Hospital Holdings, LLC  
c/o Acadia Healthcare Company, Inc.  
6100 Tower Circle, Suite 1000  
Franklin, TN 37067

(Same)

Map 79  
Parcel 77

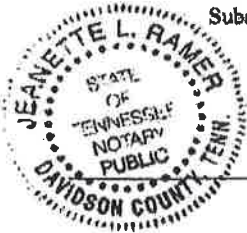
THIS INSTRUMENT PREPARED BY: Waller Lansden Dortch & Davis, LLP, Nicholas C. Mann,  
Esq., 511 Union Street, Suite 2700, Nashville, Tennessee 37219-1760

STATE OF TENNESSEE  
COUNTY OF Rutherford

The actual consideration or value, whichever is greater, for this transfer is  
\$495,000.00.

Dr. Jeffery W. Wall  
Affiant

Subscribed and sworn to before me, this the 10th day of June, 2016.



Jeanette L. Ramer  
Notary Public  
My Comm. Expires: 5/6/19

GENERAL WARRANTY DEED

FOR AND IN CONSIDERATION OF the sum of Ten Dollars, cash in hand paid by the hereinafter named GRANTEE, and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, Dean Jobe and wife, Shannon Jobe, hereinafter called "GRANTORS", have bargained and sold, and by these presents do transfer and convey unto Polaris Hospital Holdings, LLC, a Nevada limited liability company, hereinafter called "GRANTEE", its successors and assigns, a certain tract or parcel of land in Rutherford County, State of Tennessee, described as follows, to wit:

A certain tract or parcel of land in Rutherford County, State of Tennessee, described as follows, to-wit:

BEGINNING at a steel pin in the south line of the Manson Pike 25 feet south of the center line and North 86° 09' W 150.0 feet along said south line from the west line of Fred Johnson's property; thence South 3° 51' W 350.0 feet to a steel pin; thence N 86° 09' W 150.0 feet to a steel pin; thence N 3° 51' E 330.0 feet to a steel pin; thence on a curve to the right on a radius of 20.0 feet and a



**June 27, 2016****9:26 am**

deflection of 90° 00', a distance of 31.4 feet to a steel pin in the south line of Manson Pike; thence S 86° 09' E 130.0 feet along said south line to the point of beginning and being an area of 1.21 acres.

Being the same property conveyed to Dean Jobe and wife, Shannon Jobe, by deed from Nancy Z. Lanier, unmarried, of record in Record Book 1243, Page 3891, said Register's Office.


Said property is transferred subject to the limitations, restrictions, and encumbrances as set forth below:

Property taxes for 2016, which have been prorated.

This is improved property located at 2053 Wilkinson Lane, Murfreesboro, Tennessee 37129.

TO HAVE AND TO HOLD the said tract or parcel of land, with the appurtenances, estate, title and interest thereto belonging to the said GRANTEE, its successors and assigns, forever, and GRANTORS do covenant with the said GRANTEE that they are lawfully seized and possessed of said land in fee simple, have a good right to convey it, and the same is unencumbered, unless otherwise herein set out, and GRANTORS do further covenant and bind themselves, their heirs and assigns, to warrant and forever defend the title to the said land to the said GRANTEE, its successors and assigns, against the lawful claims of all persons whomsoever. Wherever used, the singular number shall include the plural, the plural the singular, and the use of any gender shall be applicable to all genders.

WITNESS our hand this 10<sup>th</sup> day of June, 2016.

  
\_\_\_\_\_  
Dean Jobe

  
\_\_\_\_\_  
Shannon Jobe



**June 27, 2016**

**9:26 am**

STATE OF TENNESSEE)  
COUNTY OF Rutherford)

Personally appeared before me, the undersigned, a Notary Public in and for said County and State, the within named Dean Jobe and Shannon Jobe, the bargainors, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who upon oath acknowledged that they executed the within instrument for the purposes therein contained.

Witness my hand and seal, at office in Murfreesboro, Tennessee,  
this the 10th day of June, 2016.

My Commission Expires: 5/6/19

*Jeannette L. Ramer*  
NOTARY PUBLIC



June 27, 2016

9:26 am

Heather Dawbarn, Register  
Rutherford County Tennessee

|        |         |                                |         |
|--------|---------|--------------------------------|---------|
| Rec #: | 868247  | Instrument #:                  | 2022230 |
| Rec'd: | 18.00   |                                |         |
| State: | 1036.00 | Recorded                       |         |
| Clark: | 1.00    | 5/27/2016 at 9:20 AM           |         |
| Other: | 2.00    | in                             |         |
| Total: | 1054.00 | Record Book 1469 Pgs 3618-3620 |         |

FROM: Melinda L. Caudle  
TO: Polaris Hospital Holdings, LLC

Address New Owner as follows: Send Tax Bills to: Map-Parcel No.  
Polaris Hospital Holdings, LLC Map 79  
c/o Acadia Healthcare Company, Inc. (Same) Parcel 75  
6100 Tower Circle, Suite 1000  
Franklin, TN 37067

THIS INSTRUMENT PREPARED BY: Walter Lansden Dortch & Davis, LLP, Nicholas C. Mann,  
Esq., 511 Union Street, Suite 2700, Nashville, Tennessee 37219-1760

STATE OF TENNESSEE

COUNTY OF Rutherford

The actual consideration or value, whichever is greater, for this transfer is  
\$280,000.00,

Don J. D. W.  
Affiant

Subscribed and sworn to before me, this the 27<sup>th</sup> day of May, 2016.



Jeanette L. Ramey  
Notary Public  
My Comm. Expires: 5/6/19

### GENERAL WARRANTY DEED

FOR AND IN CONSIDERATION OF the sum of Ten Dollars, cash in hand paid by the hereinafter named GRANTEE, and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, Melinda L. Caudle, hereinafter called "GRANTOR", has bargained and sold, and by these presents does transfer and convey unto Polaris Hospital Holdings, LLC, a Nevada limited liability company, hereinafter called "GRANTEE", its successors and assigns, a certain tract or parcel of land in Rutherford County, State of Tennessee, described as follows, to-wit:

A certain tract or parcel of land in Rutherford County, State of Tennessee, described as follows, to-wit:

BEGINNING at a steel pin in the southwest corner of Lot 2 of Harding Place, the same being the northwest corner of the property herein conveyed, and running thence S 86° E 316.7 feet along the south lines of Lots 1 and 2 to a steel pin in Fred Johnson's west line; thence 1° W 142 feet, more or less, along said west line to a point; thence N 89° W 320 feet, more or less, to a steel pin in the east line of a proposed road; thence N 1° E 150.0 feet along said

**June 27, 2016****9:26 am**

east line to the point of beginning, being an area of 1.1 acres, and being bounded on the north by property owned by H. Miller Lanier et ux, and property formerly owned by W. B. Hamaker, et ux, now owned by Fred Johnson; on the east by Fred Johnson, on the south by a tract this day conveyed to Howard Avent Lane et ux; and on the west by a proposed road.

Being the same property conveyed to Melinda L. Caudle, married, by deed from Nancy Z. Lanier, unmarried, of record in Record Book 1244, Page 2329, dated August 21, 2013, said Register's Office.


Said property is transferred subject to the limitations, restrictions, and encumbrances as set forth below:

Property taxes for 2016, which have been prorated.

This is unimproved property located on Van Cleve Lane, Murfreesboro, Tennessee 37129.

TO HAVE AND TO HOLD the said tract or parcel of land, with the appurtenances, estate, title and interest thereto belonging to the said GRANTEE, its successors and assigns, forever, and GRANTOR does covenant with the said GRANTEE that she is lawfully seized and possessed of said land in fee simple, has a good right to convey it, and the same is unencumbered, unless otherwise herein set out, and GRANTOR does further covenants and binds herself, her heirs and assigns, to warrant and forever defend the title to the said land to the said GRANTEE, its successors and assigns, against the lawful claims of all persons whomsoever. Wherever used, the singular number shall include the plural, the plural the singular, and the use of any gender shall be applicable to all genders.

WITNESS my hand this 27 day of May, 2016,

  
Melinda L. Caudle

4836-5396-4081.1

**June 27, 2016****9:26 am**STATE OF TENNESSEE  
COUNTY OF Rutherford

Personally appeared before me, the undersigned, a Notary Public in and for said County and State, the within named Melinda L. Caudle, the bargainor, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who upon oath acknowledged that she executed the within instrument for the purposes therein contained.

Witness my hand and seal, at office in Murfreesboro, Tennessee,  
this the 27<sup>th</sup> day of May, 2016.

My Commission Expires: 5/6/19  
NOTARY PUBLIC

4836-5396-4081.1

**June 27, 2016****9:26 am**

## **PURCHASE AND SALE AGREEMENT**

- (a) **BUYER NAME(s):** TrustPoint Hospital, LLC
- (b) **SELLER NAME(s):** Linda M. Murphy, individually
- (c) **PROPERTY ADDRESS and/or DESCRIPTION:** Buyer agrees to purchase and Seller agrees to sell the real property identified as: 1604 Van Cleve Ln, Murfreesboro, Tennessee, further being known as Rutherford County, TN parcel no. 079-074.00.
- (d) **PURCHASE PRICE:** Three Hundred Thirty Five Thousand and 00/100 Dollars (\$335,000.00), to be paid in cash or equivalent good funds at closing.
- (e) **EARNEST MONEY:** \$1,000.00 valid check or money order payable to Escrow Agent: Old Republic National Title Insurance Company, whose address is: 201 4<sup>th</sup> Avenue, Suite 150, Nashville, TN 37219, will be promptly delivered to Escrow Agent no later than 5:00 PM, three (3) business days after the Acceptance Date.
- (f) **CLOSING & POSSESSION DATE:** Ninety (90) days following the Acceptance Date, or such earlier date as may be requested by Seller in writing, but in no event earlier than the expiration of the Due Diligence Period. This is the date that the sale will be closed. Any other change in this date must be agreed to **in writing** by all parties. Exclusive possession of the entire property will be given to the Buyer at the time of closing.
- (g) **ITEMS INCLUDED OR EXCLUDED:** Included, if present, as part of the property sale: all real estate, buildings, improvements, appurtenances (rights and privileges), and fixtures. **Fixtures** include all things which are attached to the structure(s) by nails, screws, or other permanent fasteners, including, but not limited to all of the following, if present: attached light fixtures and bulbs, ceiling fans, attached mirrors; heating and cooling equipment and thermostats; plumbing fixtures and equipment; all doors and storm doors; all windows, screens, and storm windows; all window treatments (draperies, curtains, blinds, shades, etc.) and hardware; all wall-to-wall carpet; all built-in kitchen appliances and stove; all bathroom fixtures; gas logs, fireplace doors and attached screens; all security system components and controls; garage door openers and all remote controls; swimming pool and its equipment; awnings; permanently installed outdoor cooking grills; all fencing, landscaping and outdoor lighting; and mail boxes.
- Other items included in the sale: None.
- Items that are not included in the sale: N/A
- Leased items: None.
- (h) **CLOSING COSTS:** Closing costs are to be paid as follows: **Seller must pay** all Seller's existing loans, liens and related costs affecting the property. **Buyer must pay** (i) Seller's settlement fees, the costs of a title insurance policy with Buyer to receive benefit of

**June 27, 2016****9:26 am**

simultaneous issue, transfer taxes, deed and deed of trust recording fees, association transfer fees, hazard and any other required insurance, Buyer's settlement fees, and all Buyer's loan related or lender required expenses.

- (i) **PRORATIONS, TAXES & ASSESSMENTS:** The current year's property taxes, association or maintenance fees, (and if applicable, any remaining fuel), will be prorated as of the date of closing. Taxes for prior years and any special assessments approved before date of closing must be paid by Seller at or before closing.
- (j) **HOME PROTECTION PLANS:** Home Protection plans available for purchase are waived. Buyer and Seller understand that an administrative fee may be paid to the Real Estate Company if plan is purchased.
- (k) **TIME IS OF THE ESSENCE:** The failure to meet specified time limits will be grounds for canceling this *Agreement*.
- (l) **FAIR HOUSING AND EQUAL OPPORTUNITY:** This Property is being sold without regard to race, color, sex, religion, disability, marital status, family status, sexual orientation, age, ancestry, or national origin.
- (m) **LOAN AND APPRAISAL CONTINGENCIES:** This *Agreement* is not contingent on Buyer obtaining loan(s) of Buyer's choice.

**Appraisal Contingency** - this *Agreement* is not contingent on the appraisal value equaling or exceeding the purchase price.

- (n) **INSPECTION CONTINGENCY AND DUE DILIGENCE PERIOD:** This *Agreement* is contingent on Buyer's satisfaction with all property inspections and investigations. Buyer may use any inspectors of Buyer's choice, at Buyer's expense. Seller must permit Buyer, and Buyer's representatives and inspectors, reasonable access for inspections, with all utilities in service at Seller's expense. Buyer assumes all liability for any damage or loss caused by Buyer's or Buyer representatives' inspections or investigations of the property.

**Due Diligence Period:** All inspections and investigations must be completed with response to Seller no later than 5:00 PM, thirty (30) calendar days after the Acceptance Date (the "Due Diligence Period"). During this due diligence period Buyer is strongly advised to: (A) have a professional home inspection conducted by a licensed home inspector (at Buyer's expense), AND (B) have a wood destroying insect inspection conducted by a licensed pest inspector (at Buyer's expense), AND (C) investigate all matters itemized in the *Advisory to Buyers and Sellers* (which is an Addendum to this *Agreement*), AND (D) perform any additional inspections and investigations desired, and verify any other matters of concern to the Buyer, AND (E) if applicable, obtain a septic system inspection letter (available for a fee at TN Dept. of Environment and Conservation).

**Inspection Contingency Resolution:** If Buyer is satisfied with all inspections and investigations, Buyer may deliver to Seller a *Notice of Release* of inspection contingency



**June 27, 2016****9:26 am**

and in such case any remaining time in the Due Diligence Period shall be deemed waived. If for any reason Buyer is not satisfied with the results of any inspection or investigation or for any reason at all, the Buyer **must, within the Due Diligence Period**, deliver to Seller a written *Notice of Cancellation*, canceling this *Agreement*, and all Earnest Money must be refunded to Buyer.

If it is discovered during the Due Diligence Period that any permanent structure on the property has an active wood destroying insect infestation, the Seller, upon Buyer's request, must **professionally treat infestation before closing at Seller's expense**. Repair of any damage from wood destroying insects must be negotiated in the *Inspection Contingency Removal Proposal*.

At Closing, the title company shall be prepared to issue to Buyer a current ALTA form extended coverage Owner's Policy of Title Insurance insuring Buyer's fee simple interest in the Property for the sum equal to the Purchase Price, subject only to the exceptions permitted by Buyer, in Buyer's sole discretion, and containing such endorsements as Buyer shall have reasonably required. At Closing, Seller shall deliver such evidence, documents, owner's affidavits and indemnifications as may be reasonably required by the title insurer as a precondition to the issuance of the title policy, including the removal of the standard or general exceptions.

- (o) **FINAL INSPECTION & RISK OF LOSS:** Buyer has the right and responsibility to perform a final inspection before closing to determine that the property is in the same condition, other than ordinary wear, as when the *Agreement* was accepted (with Seller having responsibility to correct), and to see that any repairs agreed to be performed by Seller have been completed. Buyer may use inspectors. All utilities must be in service at Seller's expense. The closing of the sale confirms Buyer's acceptance of property condition. Seller is responsible for any loss or damage to the property before closing.
- (p) **DISBURSEMENT OF EARNEST MONEY, AND ADEQUATE CONSIDERATION:** The Earnest Money will be applied towards the purchase price at closing. If any contingencies or conditions of this *Agreement* are not met and the *Agreement* is cancelled, all Earnest Money must be refunded to Buyer. If Seller fails to perform any obligation under this *Agreement*, all Earnest Money must be refunded to Buyer. If required, the Escrow Agent may file an interpleader action in a court of law, and recover expenses and reasonable attorney's fees, and will have no further liability as Escrow Agent. All parties acknowledge that the consideration given, including the promises exchanged, the time limitations imposed, and the notifications required, is sufficient and adequate in exchange for the Buyer's right to legally, properly, and in good faith cancel, reinstate or extend this *Agreement* in accordance with the other terms of this *Agreement*.
- (q) **TITLE, DEED, & SELLER REPRESENTATIONS:** Seller will convey to Buyer good and marketable title to the property by a valid general warranty deed. A title policy will be issued to Buyer by a company acceptable to Buyer. **Seller represents** to the best of Seller's knowledge, unless otherwise disclosed, that: **property is not in a Special Flood Hazard Area or floodplain**; there are no violations of building, zoning or fire codes;

**June 27, 2016****9:26 am**

there are no encroachments or violations of setback lines, easements or property boundary lines; and there are no boundary line disputes. Seller also represents that Seller is lawfully possessed with fee simple title to the property, subject only to those matters shown in the title commitment, has full right to sell it, and this Agreement is the duly authorized and binding act of Seller. If at anytime the title examination, mortgage loan inspection, survey, or other information discloses any such defects, or if the Buyer discovers that any representation in this *Agreement* is in fact untrue, Buyer may, by delivering written *Notice* to Seller, either (1) accept the Property with the defects, OR (2) cancel this *Agreement* and all Earnest Money must be refunded to Buyer.

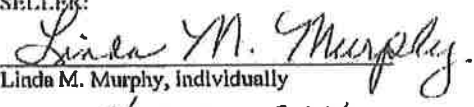
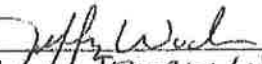
- (r) **DEFAULT OR BREACH:** If either party fails to perform any obligation under this *Agreement*, the other party may do any or all of the following: (1) cancel the *Agreement* (2) sue for specific performance, (3) sue for actual and compensatory damages. Legal counsel is strongly recommended in such circumstances.
- (s) **REAL ESTATE COMMISSIONS:** Seller and Buyer each warrant to the other that they have engaged no brokers in this transaction, and Seller and Buyer each indemnifies and holds harmless the other party from any liability (including costs and attorney's fees incurred in the defense thereof) resulting from claims by any other agent or broker claiming by or through such party.
- (t) **METHOD OF EXECUTION AND DELIVERY:** Signatures and initials transmitted by fax, photocopy, or digital signature methods will be acceptable and treated as originals. This *Agreement* constitutes the sole and entire agreement between the parties. No verbal agreements, representations, promises, or modifications of this *Agreement* will be binding unless agreed to in writing by all parties. **Delivery** will be considered to have been completed as of the date and time a document is either (1) delivered in person, OR (2) transmitted by fax, OR (3) transmitted by email.
- (u) **ACCEPTANCE DATE AND BINDING CONTRACT:** The **Acceptance Date** will be the date of full execution (signing) of this *Agreement* by all parties. The Acceptance must be promptly communicated (by any reasonable and usual mode) to the other party, thereby making this *Agreement* a legally binding contract. True executed copies of this Agreement must be promptly delivered to all parties.

(Signature Page to Follow)



**June 27, 2016****9:26 am**

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year set out below.

|                                                                                                                                                                |                                                                                                                                                                                                               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>SELLER:</b><br><br>Linda M. Murphy, individually<br>Date: <u>4-22-2016</u> | <b>BUYER:</b><br>TrustPoint Hospital, LLC<br>By: <br>Name: <u>JEFFERY WOOD</u><br>Title: <u>CEO</u><br>Date: <u>4/22/16</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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**PURCHASE AND SALE AGREEMENT**

- (a) **BUYER NAME(s):** Polaris Hospital Holdings, LLC
- (b) **SELLER NAME(s):** Shearer Ann Brown, individually
- (c) **PROPERTY ADDRESS and/or DESCRIPTION:** Buyer agrees to purchase and Seller agrees to sell the real property identified as: the northern most .64 +/- acre portion of 1595 Van Cleve Ln, Murfreesboro, Tennessee, further being known as a portion of Rutherford County, TN parcel no. 092-014.00, and as more particularly shown on Exhibit A attached hereto.
- (d) **PURCHASE PRICE:** Two Hundred Thousand and 00/100 Dollars (\$200,000.00), to be paid in cash or equivalent good funds at closing.
- (e) **EARNEST MONEY:** \$20,000.00 valid check or money order payable to Escrow Agent: Old Republic National Title Insurance Company, whose address is: 201 4<sup>th</sup> Avenue, Suite 150, Nashville, TN 37219, will be promptly delivered to Escrow Agent no later than 5:00 PM, three (3) business days after the Acceptance Date.
- (f) **CLOSING & POSSESSION DATE:** The later to occur of (a) Ninety (90) days following the Acceptance Date, or such earlier date as may be agreed upon by both parties in writing, but in no event earlier than (i) the expiration of the Due Diligence Period or (ii) the Entitlement Date (if applicable), and (b) the date Buyer's closing condition in Paragraph (g) is satisfied or waived in writing by Buyer. This is the date that the sale will be closed. Any other change in this date must be agreed to in writing by all parties. Exclusive possession of the entire property will be given to the Buyer at the time of closing.
- (g) **CLOSING CONDITION:**
- Buyer, at Buyer's sole cost and expense, shall commence as soon after the Acceptance Date as reasonably practicable and diligently pursue completion of all actions, approvals and permits required to subdivide the Property, so that the Property is a single, distinct parcel of land which is capable of being conveyed of record in compliance with all applicable governmental regulations (the "Subdivision"). At least five (5) days prior to submission of any plat for approval by a governmental authority or recording in the land records, Buyer shall first submit such plat to Seller for its review and approval, not to be unreasonably withheld, conditioned, or delayed. The plat approved by Seller and recorded by Buyer in connection with the Subdivision is referred to as the "Subdivision Plat". The Subdivision Plat shall (i) be prepared by a Tennessee-licensed surveyor selected by Buyer, (ii) delineate and monument the exact boundary lines of the Property, (iii) satisfy the requirements of Title Insurer to issue a title policy without a general survey exception (including, without limitation, showing the location of all matters on the Title Commitment to the extent that such matters reasonably can be shown on a survey), and (iv) will set forth the exact acreage of the Property.

[Execution Version]

- (n) **LOAN AND APPRAISAL CONTINGENCIES:** This *Agreement* is not contingent on Buyer obtaining loan(s) of Buyer's choice.

Appraisal Contingency - this *Agreement* is not contingent on the appraisal value equaling or exceeding the purchase price.

- (o) **INSPECTION CONTINGENCY AND DUE DILIGENCE PERIOD:** This *Agreement* is contingent on Buyer's satisfaction with all property inspections and investigations. Buyer may use any inspectors of Buyer's choice, at Buyer's expense. Seller must permit Buyer, and Buyer's representatives and inspectors, reasonable access for inspections, with all utilities in service at Seller's expense. Buyer assumes all liability for any damage or loss caused by Buyer's or Buyer representatives' inspections or investigations of the property.

Due Diligence Period: All inspections and investigations must be completed with response to Seller no later than 5:00 PM, sixty (60) calendar days after the Acceptance Date (the "Due Diligence Period"). During this due diligence period Buyer is strongly advised to: (A) have a professional home inspection conducted by a licensed home inspector (at Buyer's expense), AND (B) have a wood destroying insect inspection conducted by a licensed pest inspector (at Buyer's expense), AND (C) investigate all matters itemized in the *Advisory to Buyers and Sellers* (which is an Addendum to this *Agreement*), AND (D) perform any additional inspections and investigations desired, and verify any other matters of concern to the Buyer, AND (E) if applicable, obtain a septic system inspection letter (available for a fee at TN Dept. of Environment and Conservation).

Inspection Contingency Resolution: If Buyer is satisfied with all inspections and investigations, Buyer may deliver to Seller a *Notice of Release* of inspection contingency and in such case any remaining time in the Due Diligence Period shall be deemed waived. If for any reason Buyer is not satisfied with the results of any inspection or investigation or for any reason at all, the Buyer must, within the Due Diligence Period, deliver to Seller a written *Notice of Cancellation*, canceling this *Agreement*, and all Earnest Money must be refunded to Buyer.

At Closing, the title company shall be prepared to issue to Buyer a current ALTA form extended coverage Owner's Policy of Title Insurance insuring Buyer's fee simple interest in the Property for the sum equal to the Purchase Price, subject only to the exceptions permitted by Buyer, in Buyer's sole discretion, and containing such endorsements as Buyer shall have reasonably required. At Closing, Seller shall deliver such evidence, documents, owner's affidavits and indemnifications as may be reasonably required by the title insurer as a precondition to the issuance of the title policy, including the removal of the standard or general exceptions.

- (p) **FINAL INSPECTION & RISK OF LOSS:** Buyer has the right and responsibility to perform a final inspection before closing to determine that the property is in the same condition, other than ordinary wear, as when the *Agreement* was accepted (with Seller having responsibility to correct), and to see that any repairs agreed to be performed by



[Execution Version]

Seller have been completed. Buyer may use inspectors. The closing of the sale confirms Buyer's acceptance of property condition. Seller is responsible for any loss or damage to the property before closing.

- (q) **DISBURSEMENT OF EARNEST MONEY, AND ADEQUATE CONSIDERATION:** The Earnest Money will be applied towards the purchase price at closing. If any contingencies or conditions of this *Agreement* are not met and the *Agreement* is cancelled, all Earnest Money must be refunded to Buyer. If Seller fails to perform any obligation under this *Agreement*, all Earnest Money must be refunded to Buyer. If required, the Escrow Agent may file an interpleader action in a court of law, and recover expenses and reasonable attorney's fees, and will have no further liability as Escrow Agent. All parties acknowledge that the consideration given, including the promises exchanged, the time limitations imposed, and the notifications required, is sufficient and adequate in exchange for the Buyer's right to legally, properly, and in good faith cancel, reinstate or extend this *Agreement* in accordance with the other terms of this *Agreement*.
- (r) **TITLE, DEED, & SELLER REPRESENTATIONS:** Seller will convey to Buyer good and marketable title to the property by a valid general warranty deed. A title policy will be issued to Buyer by a company acceptable to Buyer. Seller represents to the best of Seller's knowledge, unless otherwise disclosed, that: property is not in a Special Flood Hazard Area or floodplain; there are no violations of building, zoning or fire codes; there are no encroachments or violations of setback lines, easements or property boundary lines; and there are no boundary line disputes. Seller also represents that Seller is lawfully possessed with fee simple title to the property, subject only to those matters shown in the title commitment, has full right to sell it, and this *Agreement* is the duly authorized and binding act of Seller. If at anytime the title examination, mortgage loan inspection, survey, or other information discloses any such defects, or if the Buyer discovers that any representation in this *Agreement* is in fact untrue, Buyer may, by delivering written *Notice* to Seller, either (1) accept the Property with the defects, OR (2) cancel this *Agreement* and all Earnest Money must be refunded to Buyer.
- (s) **DEFAULT OR BREACH:** If either party fails to perform any obligation under this *Agreement*, the other party may do any or all of the following: (1) cancel the *Agreement* (2) sue for specific performance, (3) sue for actual and compensatory damages. Legal counsel is strongly recommended in such circumstances.
- (t) **REAL ESTATE COMMISSIONS:** Seller and Buyer each warrant to the other that they have engaged no brokers in this transaction except for The Parks Group ("Buyer's Broker") who has been retained by Buyer, and Seller and Buyer each indemnifies and holds harmless the other party from any liability (including costs and attorney's fees incurred in the defense thereof) resulting from claims by any other agent or broker claiming by or through such party. Buyer shall pay Buyer's Broker a commission in connection with this *Agreement* pursuant to a separate written agreement between Buyer and Buyer's Broker.

June 27, 2016

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9:26 am

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[Execution Version]

- (u) **METHOD OF EXECUTION AND DELIVERY:** Signatures and initials transmitted by fax, photocopy, or digital signature methods will be acceptable and treated as originals. This *Agreement* constitutes the sole and entire agreement between the parties. No verbal agreements, representations, promises, or modifications of this *Agreement* will be binding unless agreed to in writing by all parties. Delivery will be considered to have been completed as of the date and time a document is either (1) delivered in person, OR (2) transmitted by fax, OR (3) transmitted by email.
- (v) **ACCEPTANCE DATE AND BINDING CONTRACT:** The Acceptance Date will be the date of full execution (signing) of this *Agreement* by all parties. The Acceptance must be promptly communicated (by any reasonable and usual mode) to the other party, thereby making this *Agreement* a legally binding contract. True executed copies of this Agreement must be promptly delivered to all parties.
- (w) **STORM WATER EASEMENT:** Buyer agrees to enter into an easement agreement (the "Storm Water Easement") to be executed and recorded at Closing whereby Buyer will grant to Seller an easement across a portion of the Property as reasonably determined by Buyer in order for stormwater on Seller's adjacent property to be discharged from Seller's adjacent property and reach the detention pond to be located on or adjacent to the Property (the "Detention Pond"). In addition to any other reasonable terms and conditions Buyer and Seller may agree upon, the following terms and conditions shall be incorporated into the Storm Water Easement: (i) Buyer, at Buyer's cost shall be responsible for the initial construction of a storm water pipeline (the "Storm Water Pipeline") connecting the Detention Pond to a location on Seller's adjacent property as reasonably determined by Seller, but in no event more than ten (10) feet away from the boundary line of the Property; (ii) following Buyer's initial construction of the Storm Water Pipeline, Seller, at Seller's cost shall be responsible for the ongoing maintenance, repair, and replacement of the Storm Water Pipeline, whether or not located on Seller's adjacent property or the Property; (iii) Seller shall be responsible for any facilities required to be constructed on Seller's adjacent property in order to utilize the Storm Water Pipeline; and (iv) the Storm Water Easement shall only become effective if and when Buyer constructs the Detention Pond, Seller acknowledging that nothing in this Agreement or in the Storm Water Easement shall obligate Buyer to construct the Detention Pond or obligate Buyer to construct the Detention Pond in any particular location.
- Buyer and Seller shall work in good faith to agree on the exact terms and conditions of the Storm Water Easement prior to the expiration of the Due Diligence Period. In the event that this Agreement is terminated by Buyer during the Due Diligence Period, neither party shall have any further obligations under this provision.
- (x) **SEWER EASEMENT:** Buyer agrees to enter into an easement agreement (the "Sanitary Easement") to be executed and recorded at Closing whereby Buyer will grant to Seller an easement across a portion of the Property as reasonably determined by Buyer in order for Seller to connect to and utilize Buyer's sanitary sewer system on the Property ("Buyer's Sanitary System"). Notwithstanding the foregoing, in addition to any other reasonable terms and conditions Buyer and Seller may agree upon, the following terms



**[Execution Version]**

and conditions shall be incorporated into the Sanitary Easement: (i) Buyer, at Buyer's cost shall be responsible for the initial construction of (a) a sanitary extension (the "Sanitary Extension") connecting Buyer's Sanitary System to a location on Seller's adjacent property as reasonably determined by Seller, but in no event more than ten (10) feet away from the boundary line of the Property; (ii) following Buyer's initial construction of the Sanitary Extension, Seller, at Seller's cost shall be responsible for the ongoing maintenance, repair, and replacement of the Sanitary Extension, whether or not located on Seller's adjacent property or the Property; (iii) Seller shall be responsible for any facilities required to be constructed on Seller's adjacent property in order to utilize the Sanitary Extension; and (iv) the Sanitary Easement shall only become effective if and when Buyer constructs Buyer's Sanitary System, Seller acknowledging that nothing in this Agreement or in the Sanitary Easement shall obligate Buyer to construct Buyer's Sanitary System or obligate Buyer to construct Buyer's Sanitary System in any particular location.

Buyer and Seller shall work in good faith to agree on the exact terms and conditions of the Sanitary Easement prior to the expiration of the Due Diligence Period. In the event that this Agreement is terminated by Buyer during the Due Diligence Period, neither party shall have any further obligations under this provision.

- (y) Buyer and Seller acknowledge there are no oral agreements between the parties hereto affecting this Agreement, and this Agreement supersedes and cancels any and all previous negotiations, arrangements, letters of intent, proposals, brochures, agreements, representations, promises, warranties and understandings between the parties hereto or displayed by Buyer to Seller with respect to the subject matter thereof.

**(Signature Page to Follow)**

**June 27, 2016**

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**9:26 am**

PAGE 08/09

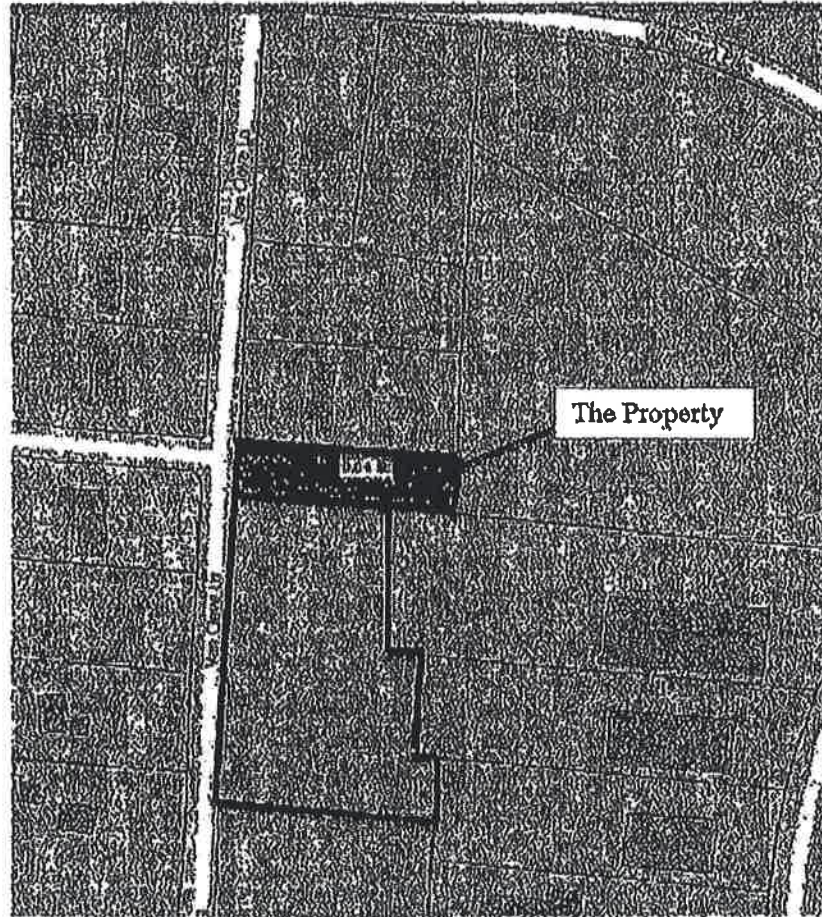
**[Execution Version]**

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year set out below.

|                                                                                                        |                                                                                                                                                                            |
|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>SELLER:</b><br><u>Sharon Ann Brown</u><br>Ann Brown Shearer, Individually<br>Date: <u>5-13-2016</u> | <b>BUYER:</b><br>Polaris Hospital Holdings, LLC<br>By: <u>[Signature]</u><br>Name: <u>Christopher Howard</u><br>Title: <u>VP &amp; Secretary</u><br>Date: <u>5/17/2016</u> |
|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**Exhibit A**

**The Property**





## Utilization

| <b>2012</b>                   |            | <b>Psychiatric Beds</b> |           |       |       |          |           |     |           |           |           |
|-------------------------------|------------|-------------------------|-----------|-------|-------|----------|-----------|-----|-----------|-----------|-----------|
| Facility                      | Co         | Youth                   | Geriatric | Other | Total | Pts Days | Occ. Rate | A&D | Pts. Days | Occ. Rate | Occ. Rate |
| Stones River                  | Cannon     | 0                       | 22        | 0     | 22    | 2,545    | 31.7%     | 0   | 18        | 0.0%      | 0.0%      |
| Middle TN Mental Health Inst. | Davidson   | 0                       | 0         | 195   | 195   | 60,614   | 85.2%     | 0   | 0         | 0.0%      | 0.0%      |
| Centennial*                   | Davidson   | 0                       | 16        | 99    | 115   | 30,460   | 72.6%     | 17  | 1,998     | 32.2%     | 32.2%     |
| Skyline-Madison               | Davidson   | 10                      | 20        | 61    | 91    | 21,456   | 64.6%     | 19  | 3,876     | 55.9%     | 55.9%     |
| St. Thomas*                   | Davidson   | 0                       | 0         | 15    | 15    | 3,656    | 66.8%     | 8   | 367       | 12.6%     | 12.6%     |
| Summit                        | Davidson   | 0                       | 0         | 20    | 20    | 4,061    | 55.6%     | 0   | 224       | 0.0%      | 0.0%      |
| Vanderbilt                    | Davidson   | 0                       | 0         | 60    | 60    | 27,138   | 123.9%    | 28  | 2,245     | 22.0%     | 22.0%     |
| Rolling Hills                 | Williamson | 17                      | 10        | 41    | 68    | 22,705   | 91.5%     | 12  | 0         | 0.0%      | 0.0%      |
| McFarland                     | Wilson     | 0                       | 0         | 49    | 49    | 8,100    | 43.3%     | 0   | 47        | 0.0%      | 0.0%      |

| <b>2013</b>                   |            | <b>Psychiatric Beds</b> |           |       |       |          |           |     |           |           |           |
|-------------------------------|------------|-------------------------|-----------|-------|-------|----------|-----------|-----|-----------|-----------|-----------|
| Facility                      | Co         | Youth                   | Geriatric | Other | Total | Pts Days | Occ. Rate | A&D | Pts. Days | Occ. Rate | Occ. Rate |
| Stones River                  | Cannon     | 0                       | 22        | 0     | 22    | 1,613    | 20.1%     | 0   | 246       | 0.0%      | 0.0%      |
| Middle TN Mental Health Inst. | Davidson   | 0                       | 0         | 195   | 195   | 60,819   | 85.4%     | 0   | 0         | 0.0%      | 0.0%      |
| Centennial*                   | Davidson   | 0                       | 16        | 99    | 115   | 29,480   | 70.2%     | 17  | 2,595     | 41.8%     | 41.8%     |
| Skyline-Madison               | Davidson   | 16                      | 20        | 58    | 94    | 25,841   | 75.3%     | 14  | 3,127     | 61.2%     | 61.2%     |
| St. Thomas*                   | Davidson   | 0                       | 0         | 15    | 15    | 3,465    | 63.3%     | 8   | 251       | 8.6%      | 8.6%      |
| Summit                        | Davidson   | 0                       | 0         | 20    | 20    | 2,481    | 34.0%     | 0   | 239       | 0.0%      | 0.0%      |
| Vanderbilt                    | Davidson   | 0                       | 0         | 60    | 60    | 26,208   | 119.7%    | 28  | 2,370     | 23.2%     | 23.2%     |
| Rolling Hills                 | Williamson | x                       | x         | x     | x     | x        | x         | x   | x         | x         | x         |
| McFarland                     | Wilson     | 0                       | 0         | 49    | 49    | 7,179    | 40.1%     | 0   | 0         | 0.0%      | 0.0%      |

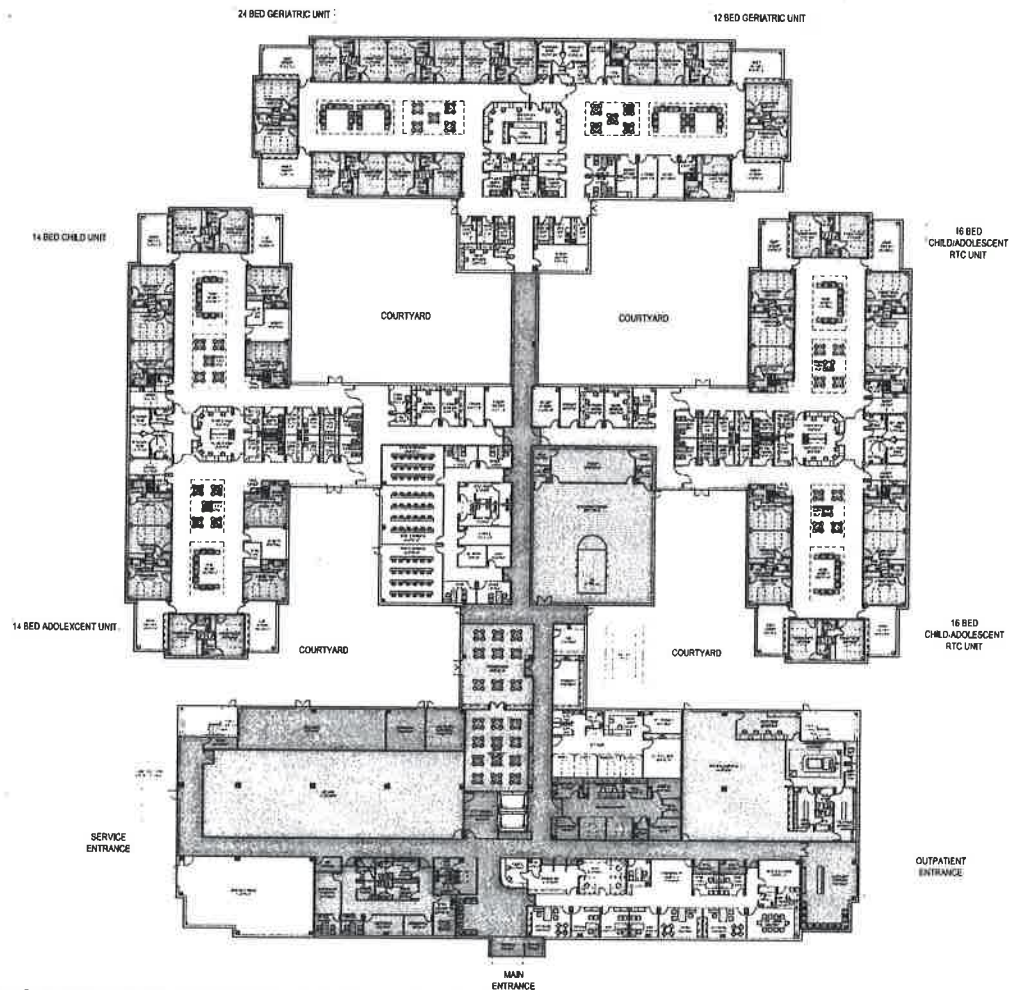
| <b>2014</b>                   |            | <b>Psychiatric Beds</b> |           |       |       |          |           |     |           |           |           |
|-------------------------------|------------|-------------------------|-----------|-------|-------|----------|-----------|-----|-----------|-----------|-----------|
| Facility                      | Co         | Youth                   | Geriatric | Other | Total | Pts Days | Occ. Rate | A&D | Pts. Days | Occ. Rate | Occ. Rate |
| Stones River                  | Cannon     | 0                       | 22        | 0     | 22    | 1,514    | 18.9%     | 0   | 515       | 0.0%      | 0.0%      |
| Middle TN Mental Health Inst. | Davidson   | 0                       | 0         | 207   | 207   | 64,670   | 85.6%     | 0   | 0         | 0.0%      | 0.0%      |
| Centennial*                   | Davidson   | 0                       | 18        | 112   | 130   | 31,227   | 65.8%     | 2   | 3,661     | 501.5%    | 501.5%    |
| Skyline-Madison               | Davidson   | 21                      | 20        | 61    | 102   | 25,679   | 69.0%     | 19  | 3,548     | 51.2%     | 51.2%     |
| St. Thomas*                   | Davidson   | 0                       | 0         | 23    | 23    | 2,768    | 33.0%     | 0   | 404       | 0.0%      | 0.0%      |
| Summit*                       | Davidson   | 0                       | 0         | 0     | 0     | 74       | 0.0%      | 0   | 185       | 0.0%      | 0.0%      |
| Vanderbilt*                   | Davidson   | 0                       | 0         | 88    | 88    | 25,019   | 77.9%     | 0   | 3,788     | 0.0%      | 0.0%      |
| Rolling Hills                 | Williamson | 18                      | 0         | 58    | 76    | 21,207   | 76.4%     | 9   | 3,459     | 105.3%    | 105.3%    |
| McFarland*                    | Wilson     | 0                       | 0         | 0     | 0     | 107      | 0.0%      | 0   | 56        | 0.0%      | 0.0%      |

\* Best Guess, Based on JAR Inaccuracies. For example, how could Vanderbilt have no A&D beds, yet provide 3,788 A&D patient days of care?  
 x NO JAR

**Rehab Inpatient Utilization**

| Facility                          | 2012  |        |       |       | 2013  |        |       |       | 2014  |       |       |       |
|-----------------------------------|-------|--------|-------|-------|-------|--------|-------|-------|-------|-------|-------|-------|
|                                   | OT    | P/T    | S/T   | Other | O/T   | P/T    | S/T   | Other | O/T   | P/T   | S/T   | other |
| Stones River                      | 30    | 290    | 15    | 0     | 0     | 1,587  | 221   | 0     | 0     | 0     | 0     | 0     |
| Middle TN Mental Health Institute | 52    | 0      | 0     | 84    | 60    | 0      | 0     | 92    | 60    | 0     | 0     | 92    |
| Centennial*                       | 3,622 | 5,382  | 2,227 | 0     | 4,530 | 6,921  | 2,226 | 0     | 5,852 | 7,864 | 2,844 | 0     |
| Skyline-Madison                   | 155   | 223    | 75    | 3,660 | 0     | 268    | 52    | 3,414 | 0     | 347   | 144   | 3,567 |
| St. Thomas*                       | 3,315 | 7,455  | 1,401 | 0     | 3,130 | 7,597  | 1,418 | 0     | 1,156 | 5,347 | 874   | 0     |
| Summit                            | 1,806 | 2,438  | 621   | 0     | 2,155 | 683    | 2,738 | 0     | 2,364 | 2,803 | 740   | 0     |
| Vanderbilt                        | 8,950 | 11,140 | 3941  | 0     | 9,555 | 11,639 | 4,093 | 0     | 1,506 | 1,506 | 1,506 | 4,518 |
| Rolling Hills                     | 0     | 0      | 0     | 0     | 0     | 0      | 0     | 0     | 0     | 0     | 0     | 0     |
| McFarland                         | 0     | 0      | 0     | 0     | 0     | 195    | 0     | 0     | 0     | 167   | 0     | 0     |

*Note: The JARs are suspicious. For example, Vanderbilt reported exactly 1,506 procedures for each of six different types of services under rehab inpatient utilization....meaning the exact same number of occupational therapies were provided as were physical therapy procedures as were speech therapy procedures, etc.*



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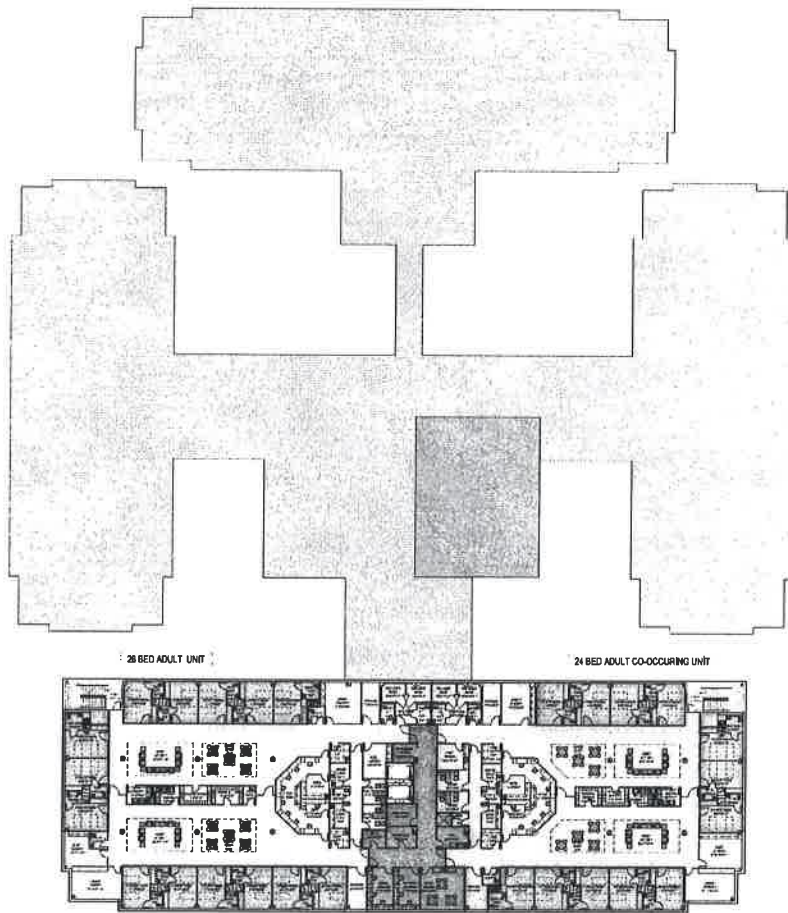
TRUSTPOINT HOSPITAL OF MURFREESBORO EXPANSION  
MURFREESBORO, TENNESSEE



CONCEPTUAL FIRST FLOOR PLAN - 90,500 SF

**June 27, 2016**

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TRUSTPOINT HOSPITAL OF MURFREESBORO EXPANSION  
MURFREESBORO, TENNESSEE



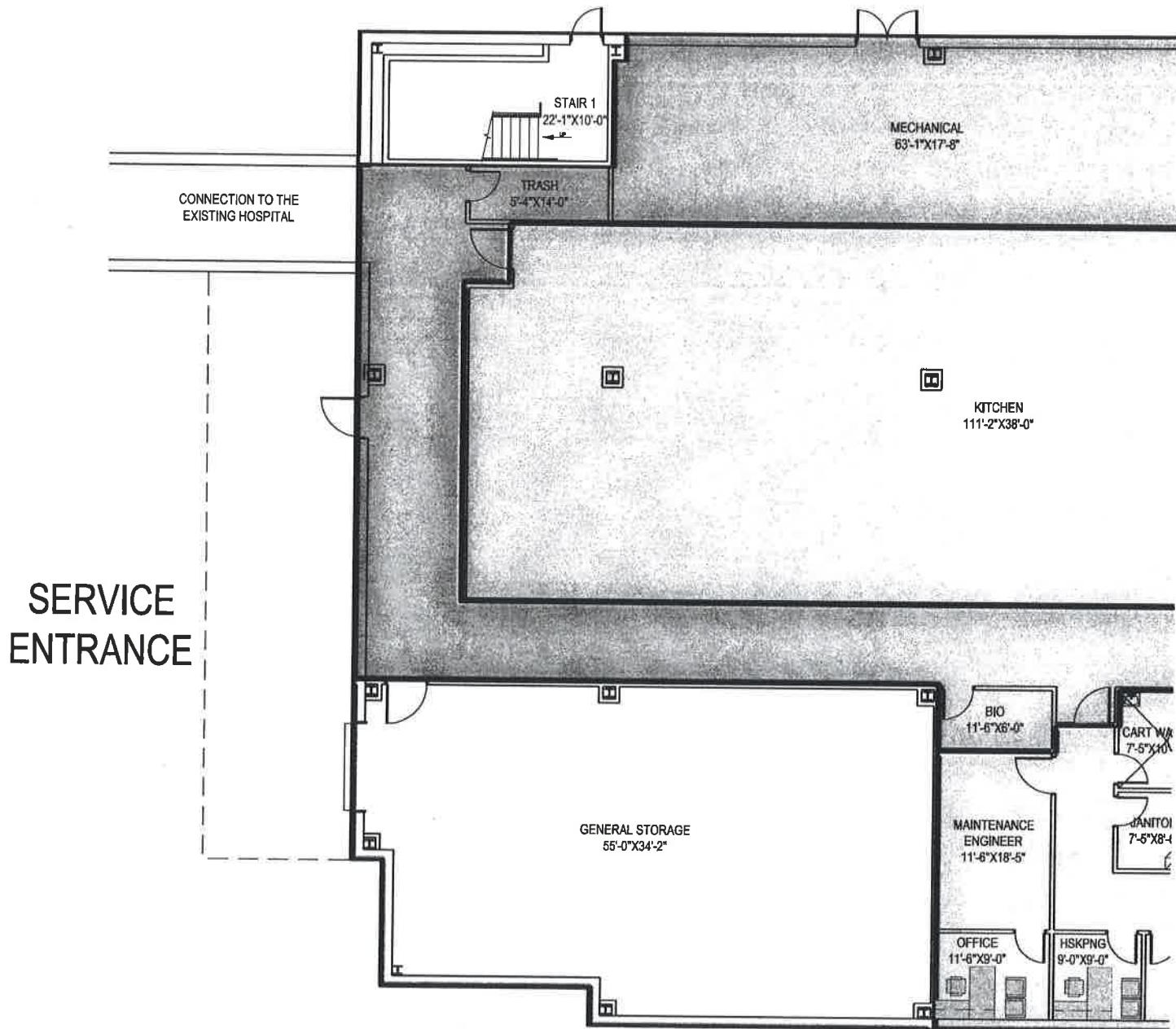
CONCEPTUAL SECOND FLOOR PLAN - 29,000 SF



# SUPPLEMENTAL #1

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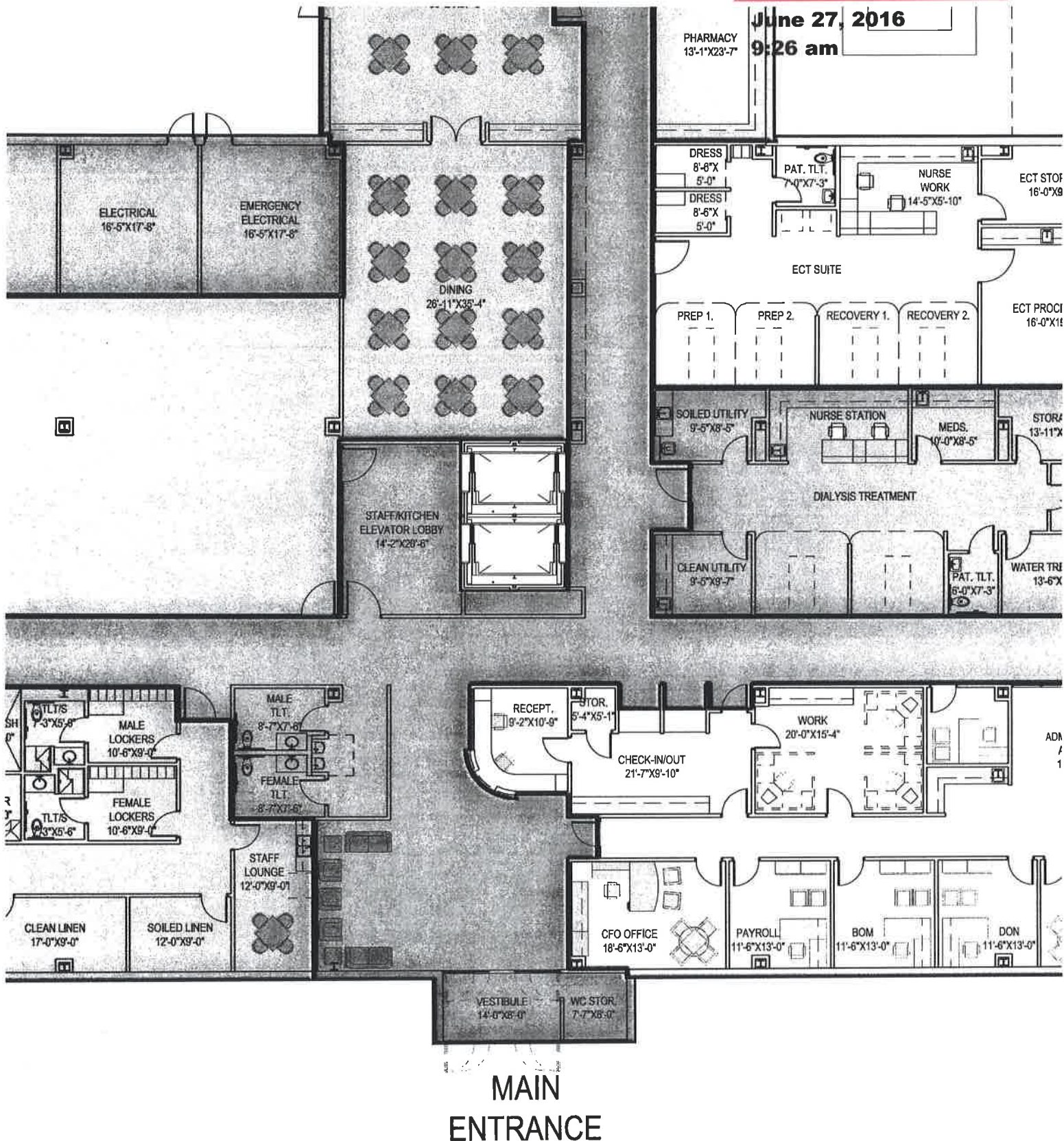
TRUSTPOINT HOSPITAL OF MURFREESBORO EXPANSION

MURFREESBORO, TENNESSEE

FIRST FLOOR PLAN PAT 'A'

June 27, 2016

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TRUSTPOINT HOSPITAL OF MURFREESBORO EXPANSION

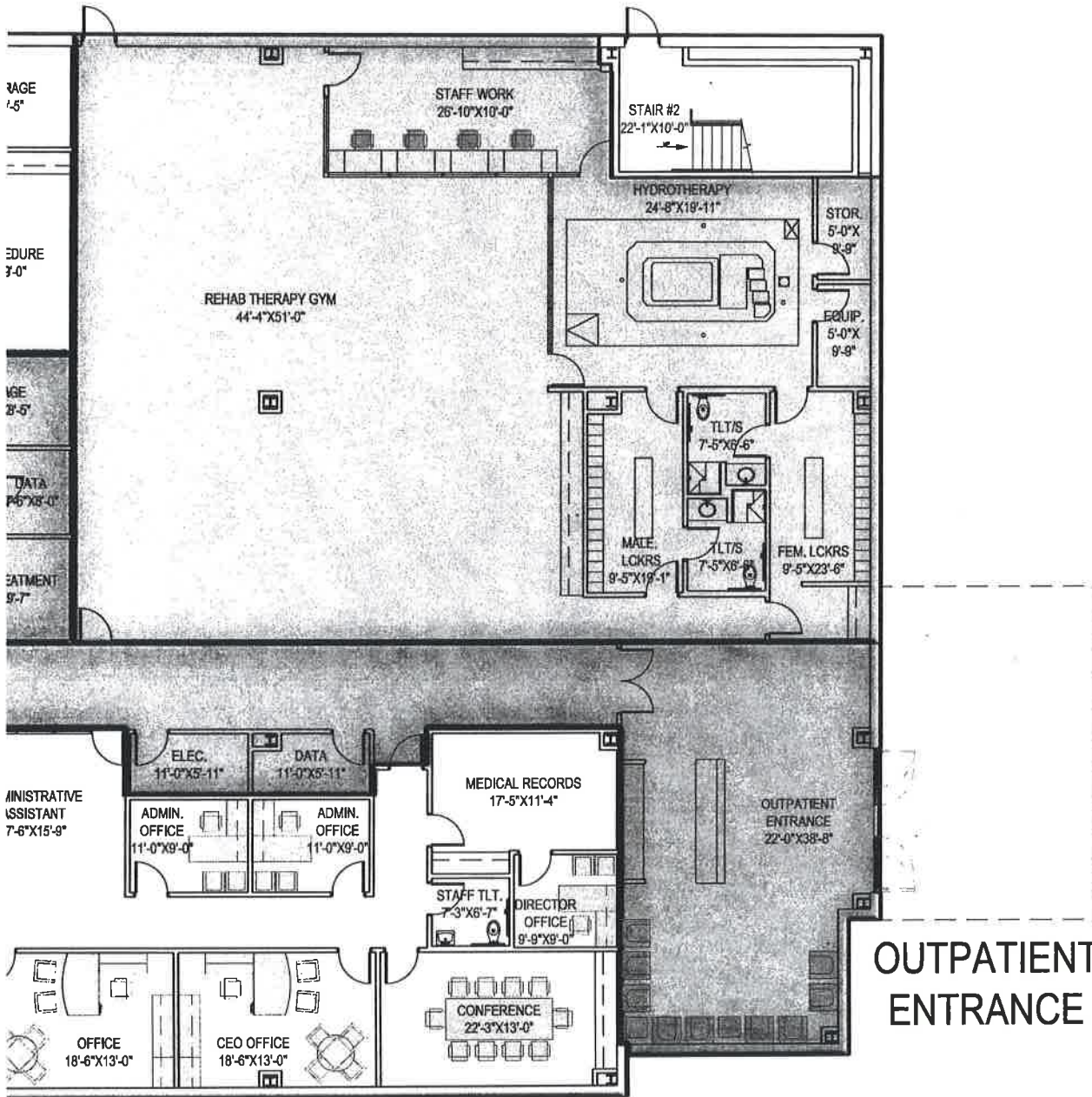
MURFREESBORO, TENNESSEE

FIRST FLOOR PLAN PAT 'B'



**June 27, 2016**

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**OUTPATIENT  
ENTRANCE**

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**TRUSTPOINT HOSPITAL OF MURFREESBORO EXPANSION**

**MURFREESBORO, TENNESSEE**

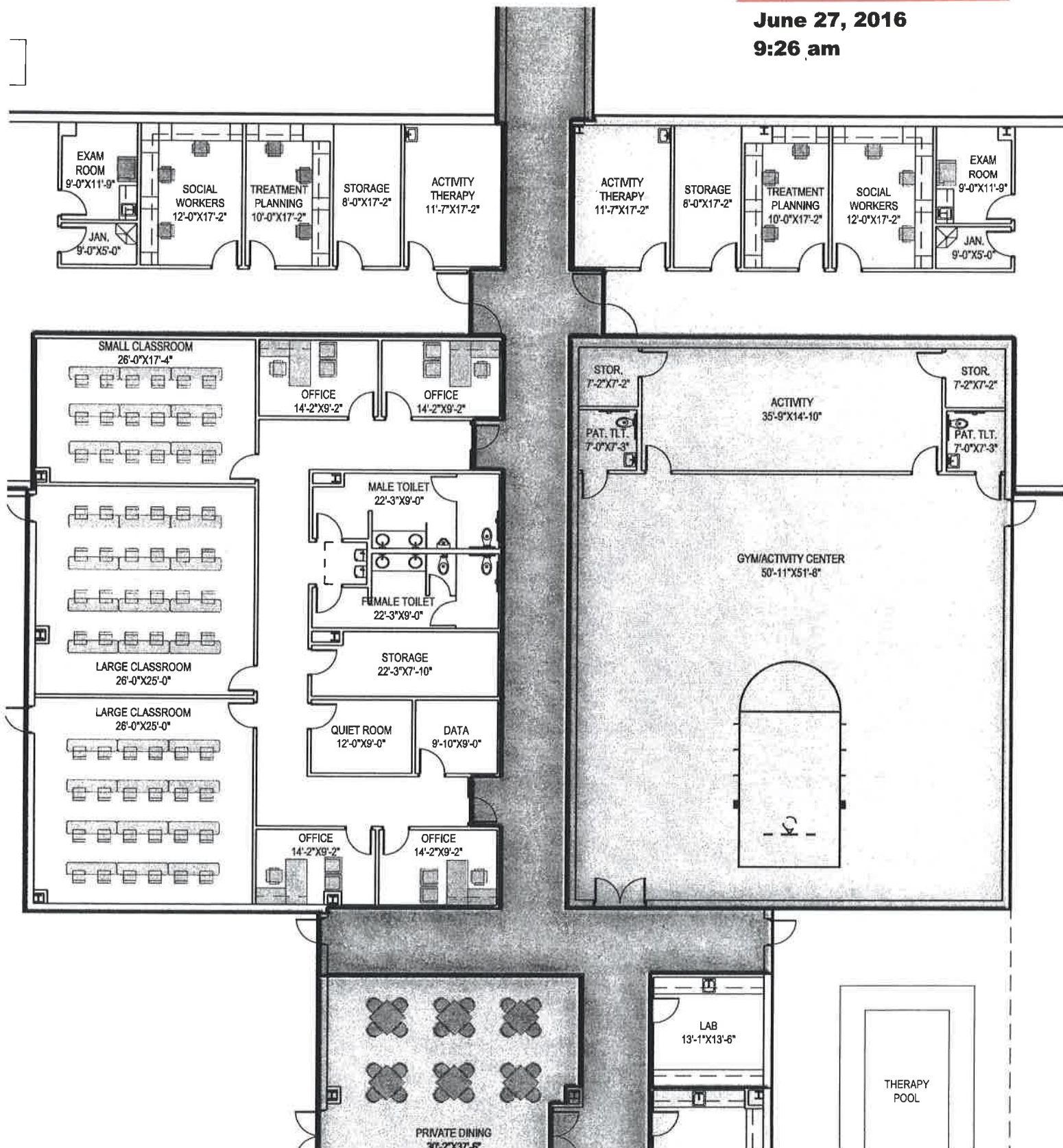
**FIRST FLOOR PLAN PAT 'C'**



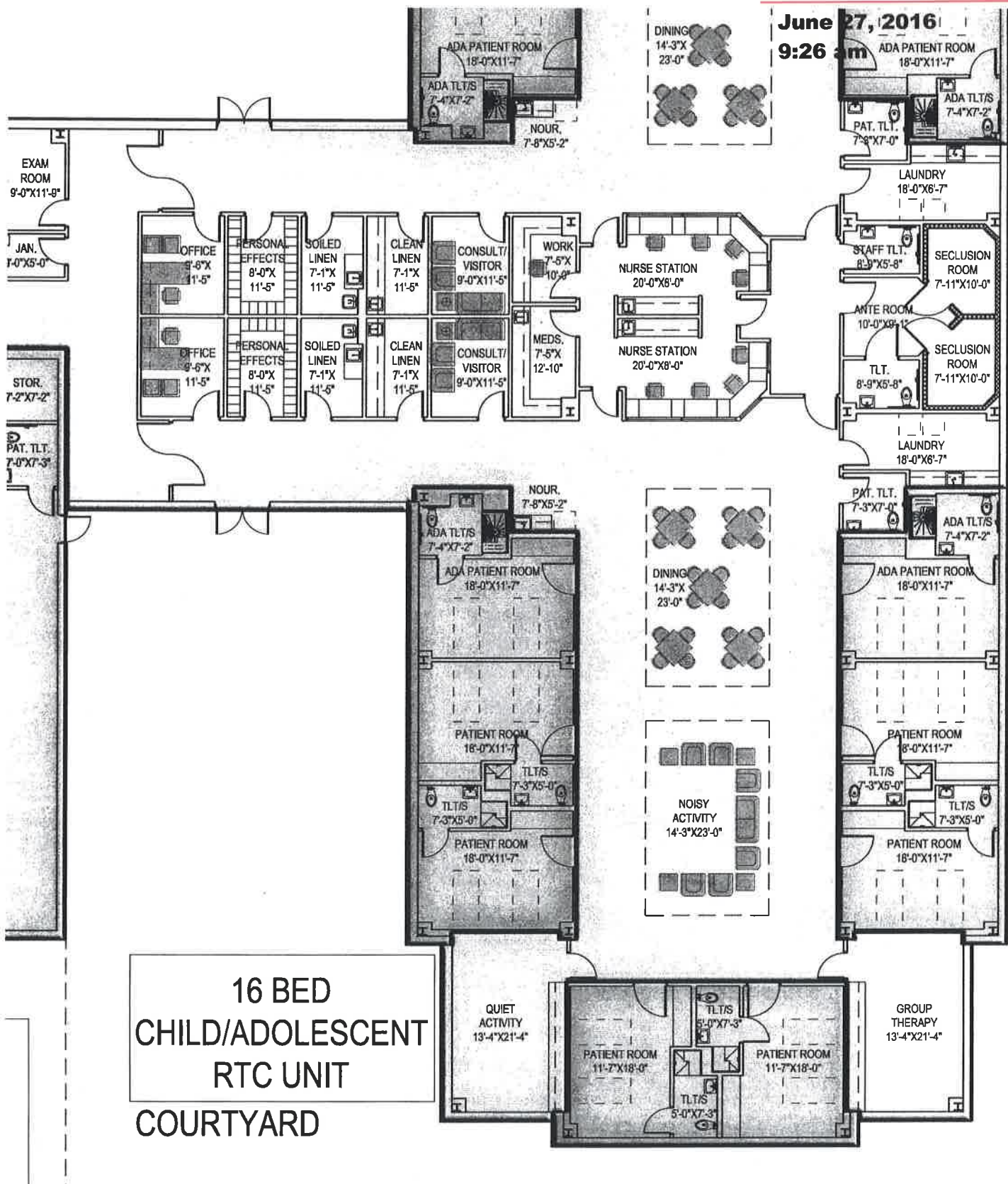


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TRUSTPOINT HOSPITAL OF MURFREESBORO EXPANSION

MURFREESBORO, TENNESSEE

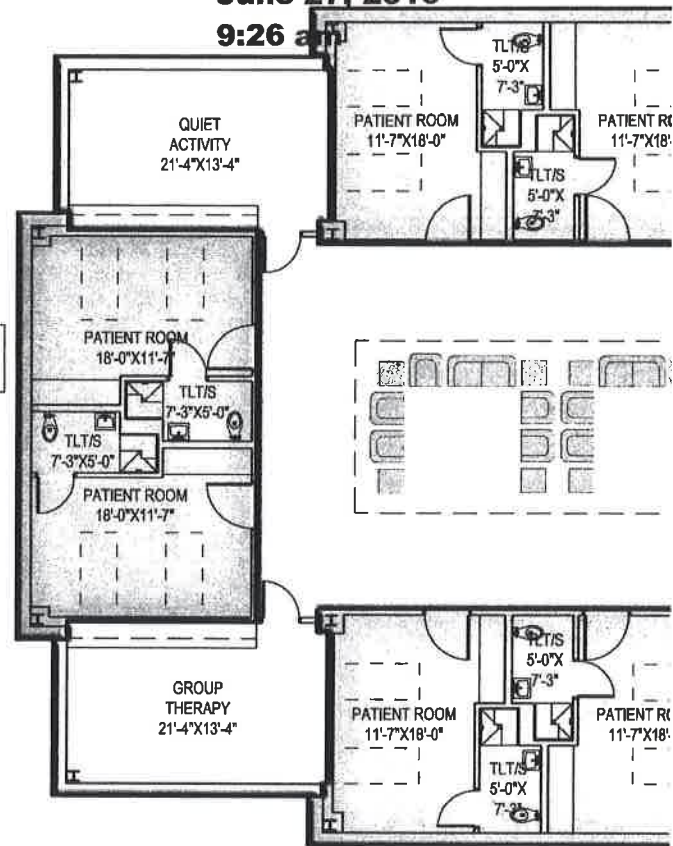
FIRST FLOOR PLAN PAT 'F'



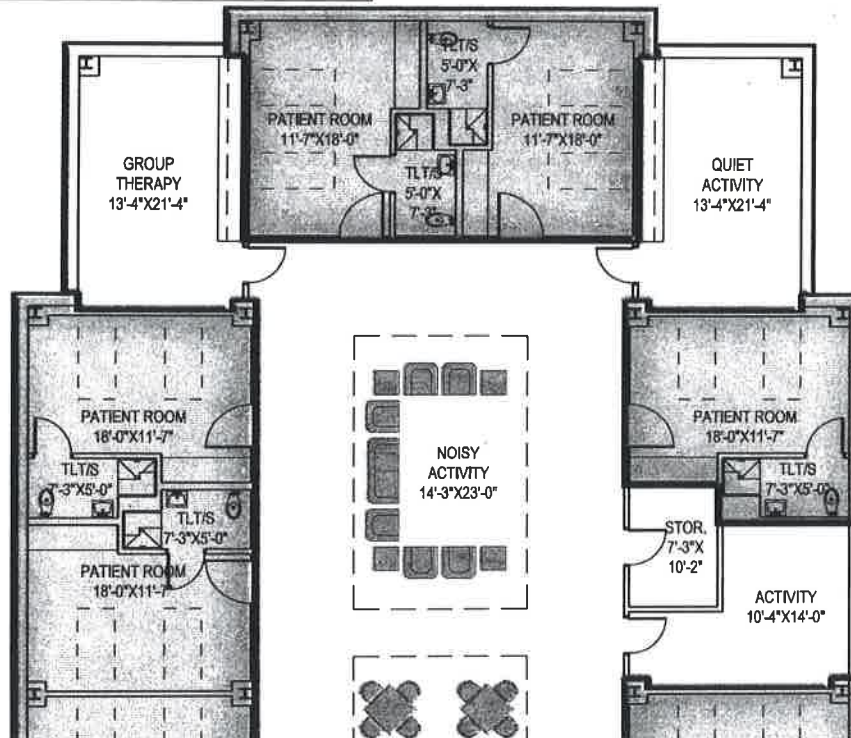
**June 27, 2016**

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**24 BED GERIATRIC UNIT**

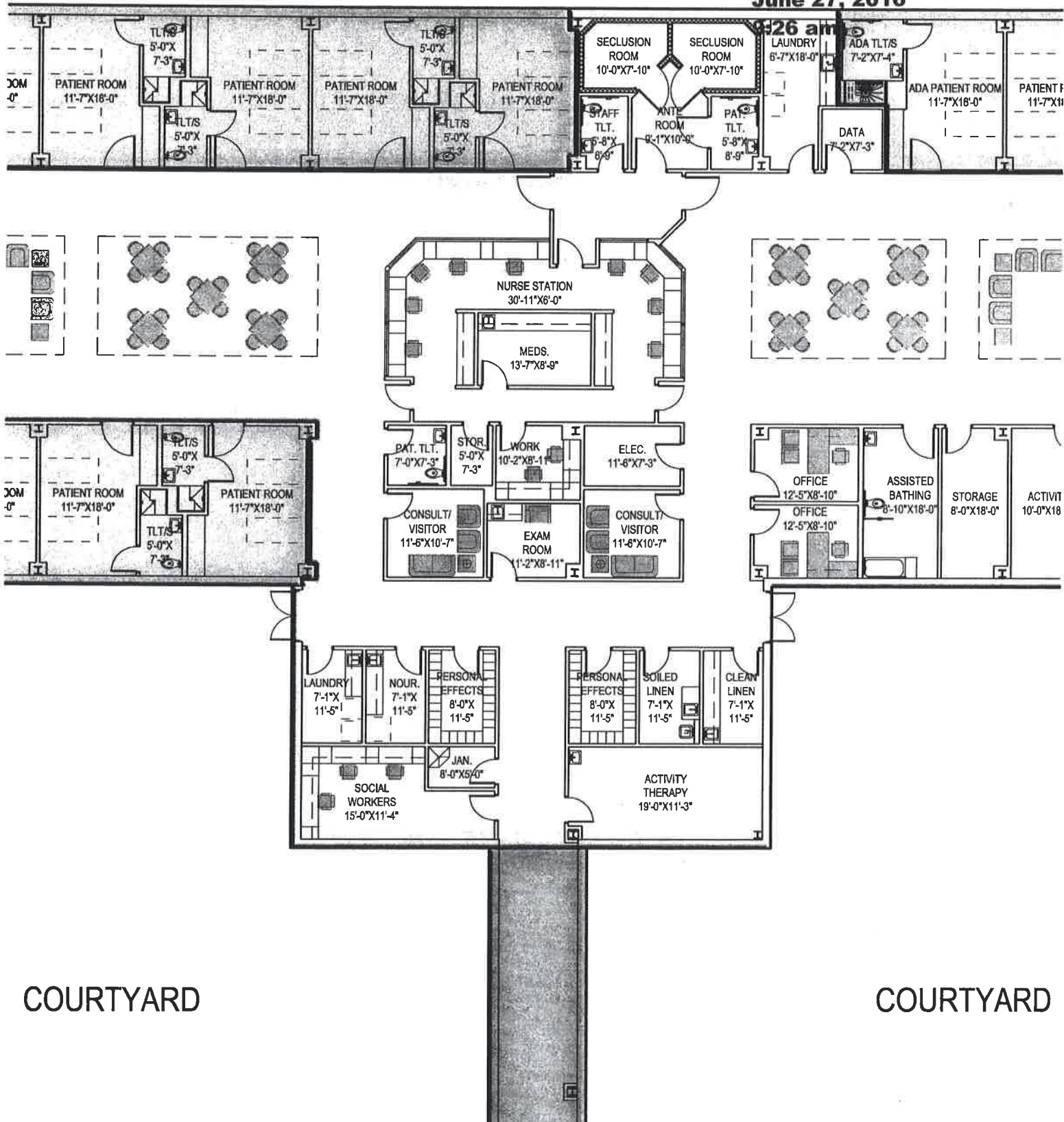


**14 BED CHILD UNIT**



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June 27, 2016

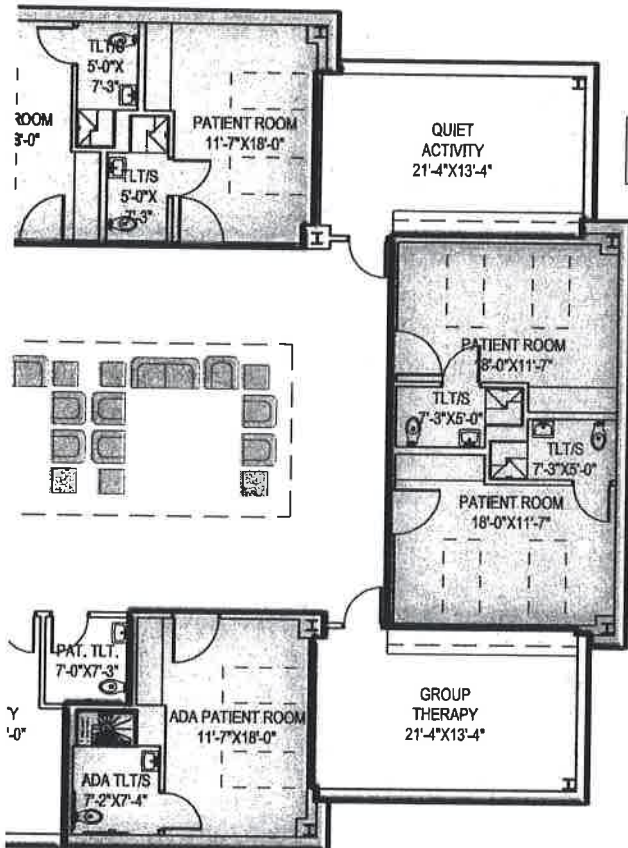


COURTYARD

COURTYARD

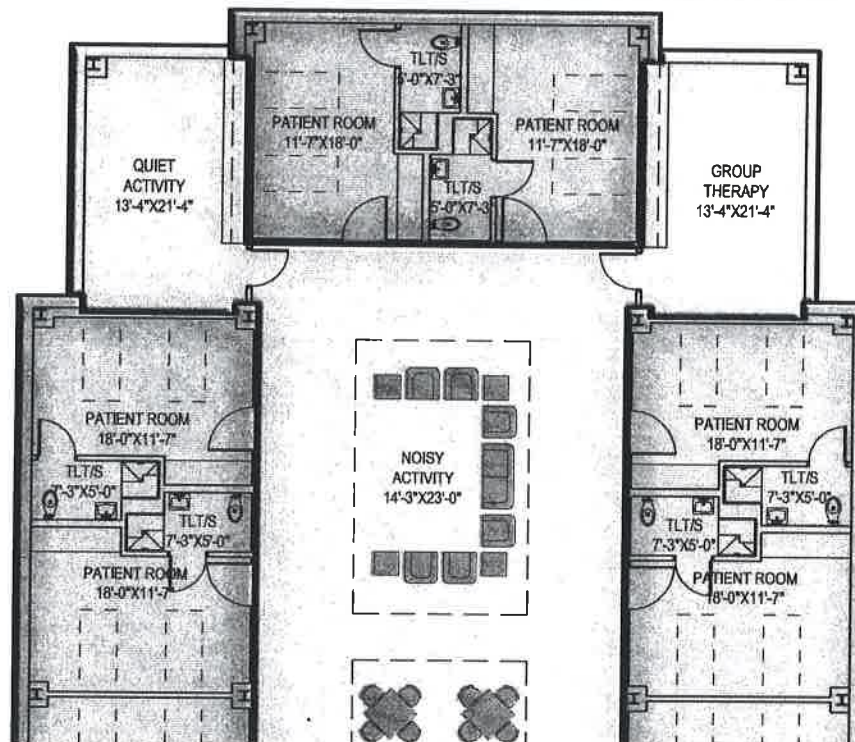
**June 27, 2016**

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**12 BED GERIATRIC UNIT**

**16 BED  
CHILD/ADOLESCENT  
RTC UNIT**

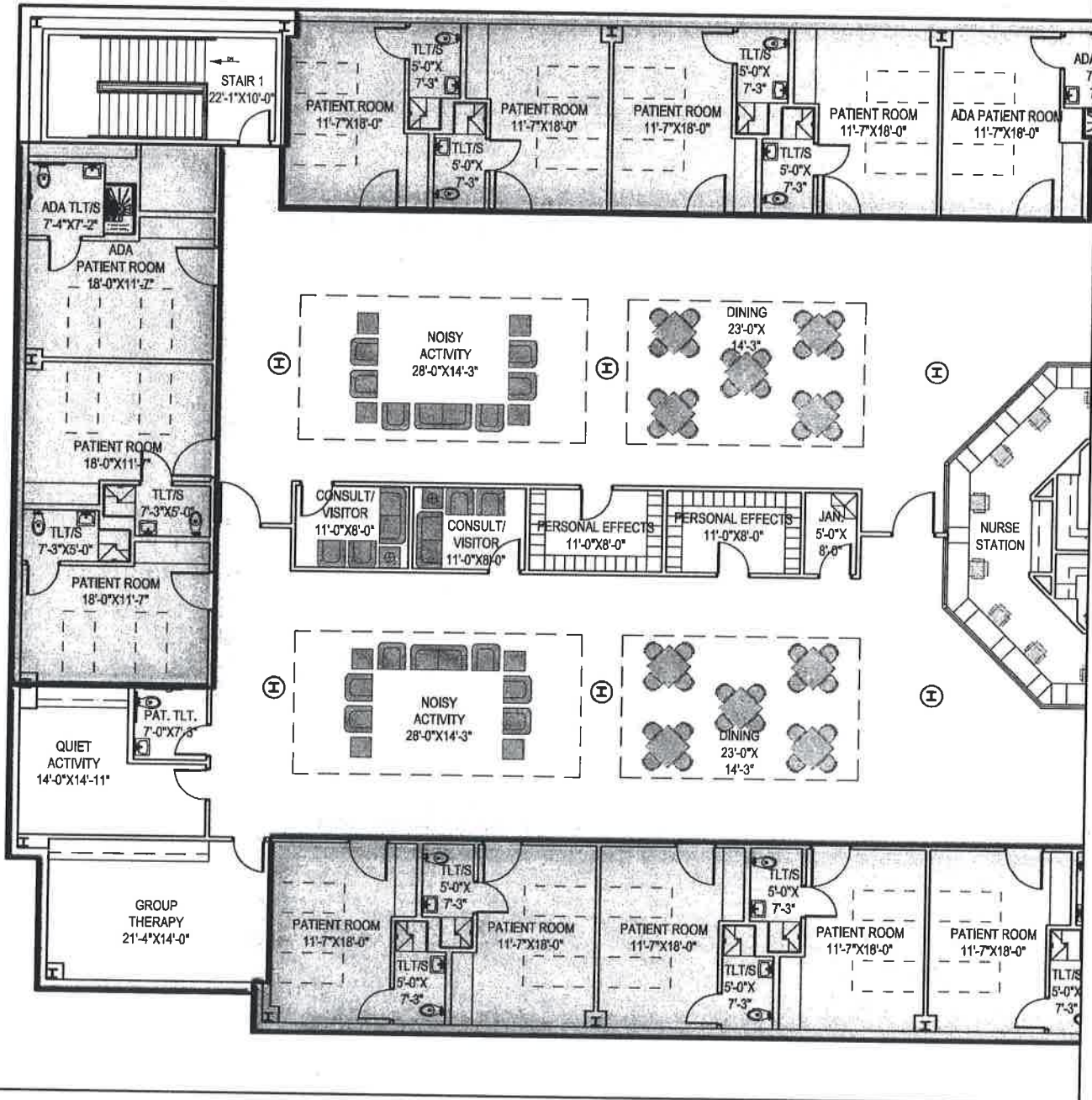




**June 27, 2016**

**9:26 am**

**28 BED ADULT UNIT**



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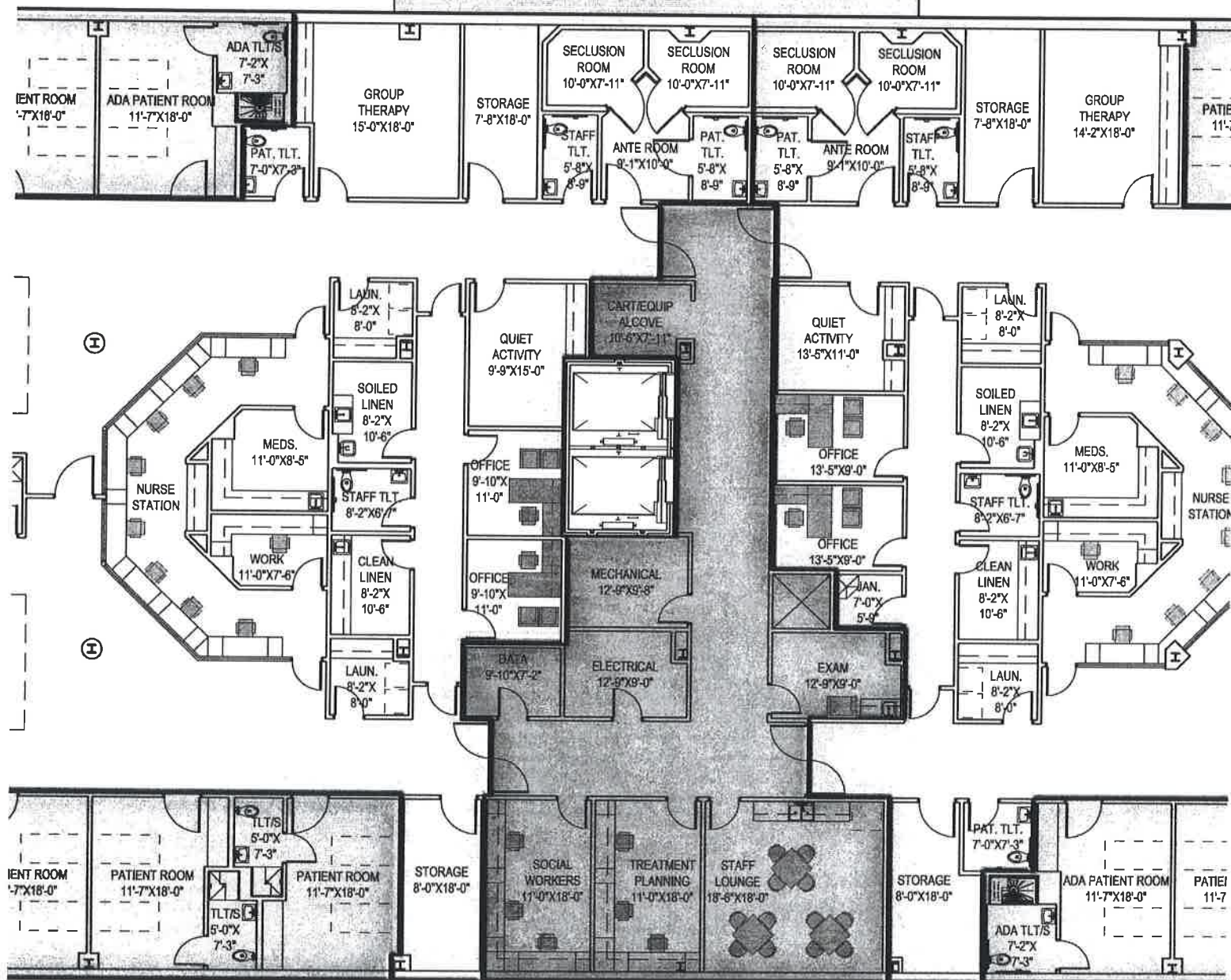
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TRUSTPOINT HOSPITAL OF MURFREESBORO EXPANSION

MURFREESBORO, TENNESSEE

SECOND FLOOR PLAN PAT 'A'

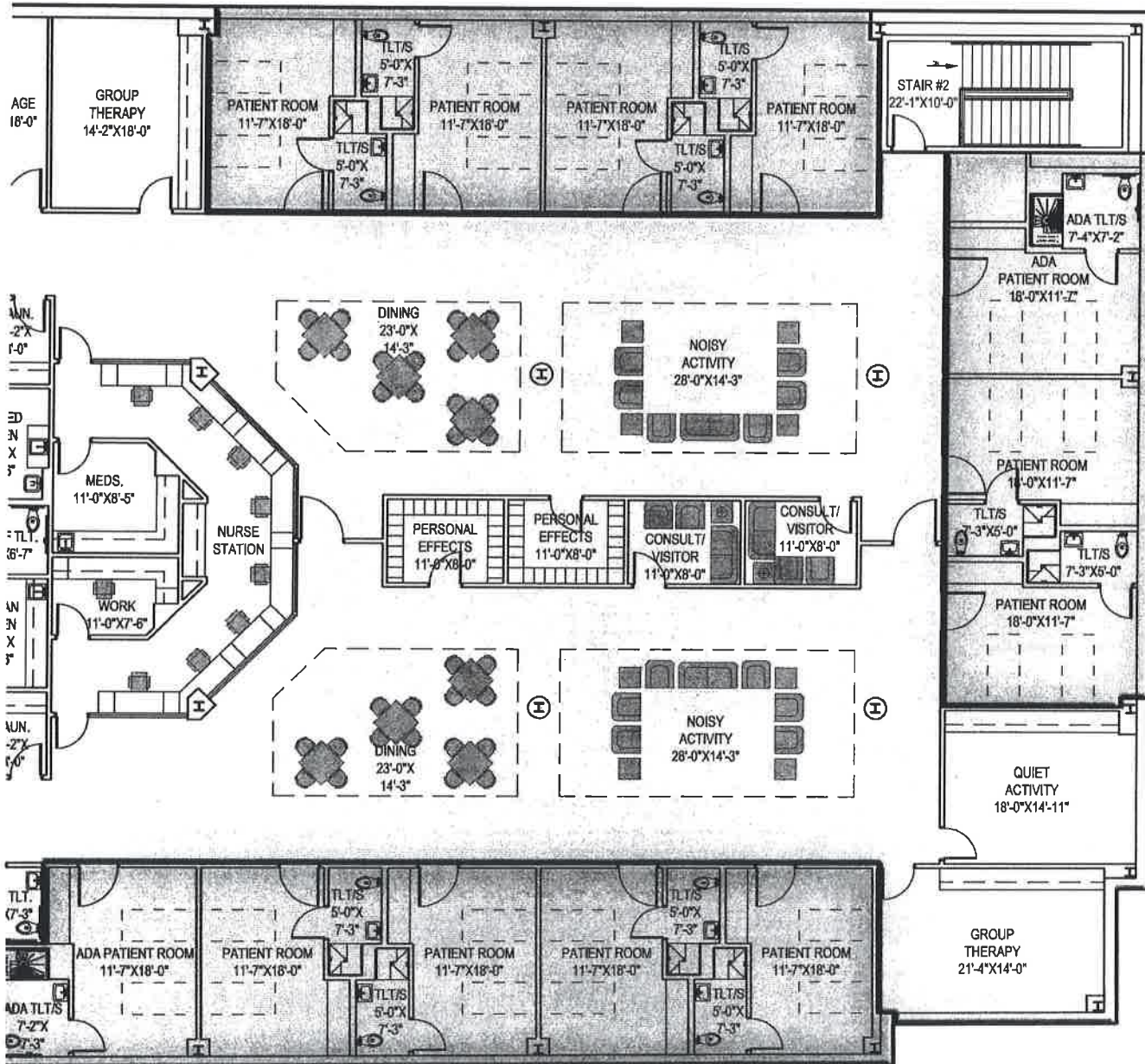




**June 27, 2016**

**9:26 am**

**24 BED ADULT CO-OCCURRING UNIT**



16013



TRUSTPOINT HOSPITAL OF MURFREESBORO EXPANSION

MURFREESBORO, TENNESSEE

SECOND FLOOR PLAN PAT 'C'



**COMPREHENSIVE INPATIENT REHABILITATION SERVICES**

1. The need for comprehensive inpatient rehabilitation beds shall be determined by applying the guideline of ten beds per 100,000 population in the service area of the proposal.

**Response:** Based on population estimates for the service area of Bedford and Rutherford Counties for 2016 and 2020, the need for inpatient rehabilitation beds is estimated to be 37 beds in 2016 and 42 beds in 2020.

2. The need shall be based upon the current year's population and projected four years forward.

**Response:** Based on population estimates for the service area of Bedford and Rutherford Counties for 2016 and 2020, the need for inpatient rehabilitation beds is estimated to be 37 beds in 2016 and 42 beds in 2020.

3. Applicants shall use a geographic service area appropriate to inpatient rehabilitation services.

**Response:** The service area of Bedford and Rutherford Counties is appropriate for inpatient rehabilitation services.

4. Inpatient rehabilitation units in acute care hospitals shall have a minimum size of 8 beds.

**Response:** Trustpoint Hospital is currently approved for 19 inpatient rehabilitation beds, and if the instant CON application is approved, this number will increase to 24 beds.

5. Freestanding rehabilitation hospitals shall have a minimum size of 50 beds.

**Response:** Trustpoint Hospital is currently approved for 19 inpatient rehabilitation beds, and if the instant CON application is approved, this number will increase to 24 beds.

6. Additional inpatient rehabilitation beds, units, or freestanding hospitals should not be approved by the HFC (sic) unless all existing units or facilities are utilized at the following levels:

|                           |   |     |
|---------------------------|---|-----|
| 20-30 bed unit            | ~ | 75% |
| 31-50 bed unit/facility   | ~ | 80% |
| 51 bed plus unit/facility | ~ | 85% |

**Response:** Our current inpatient rehabilitation beds are operating at 84% occupancy (please see *Attachment B.II.C.6*).

**June 27, 2016**

**9:26 am**

7. The applicant must document the availability of adequate professional staff, as per licensing requirements, to deliver all designated services in the proposal. It is preferred that the medical director of a rehabilitation hospital be a board certified physiatrist.

**Response:** The Applicant has had no problems in staffing its current 19 bed unit, and foresees no difficulty in staffing 5 additional beds. As noted on the staffing chart, much of the inpatient rehabilitation staffing will be on a PRN basis.

**June 27, 2016****9:26 am****PROJECT COSTS CHART****A. Construction and equipment acquired by purchase.**

|                                                                 |              |
|-----------------------------------------------------------------|--------------|
| 1. Architectural and Engineering Fees                           | \$ 3,317,928 |
| 2. Legal, Administrative (Excluding CON Filing Fee), Consultant | 100,000      |
| 3. Acquisition of Site                                          | 4,810,000    |
| 4. Preparation of Site                                          | 1,100,000    |
| 5. Construction Costs                                           | 40,988,716   |
| 6. Contingency Fund                                             | 4,356,345    |
| 7. Fixed Equipment (Not included in Construction Contract)      | 650,000      |
| 8. Moveable Equipment (List all equipment over \$50,000)*       | 1,952,116    |
| 9. Other (Specify)                                              |              |

**Subsection A Total****\$ 57,275,105****B. Acquisition by gift, donation, or lease.**

|                                                    |   |
|----------------------------------------------------|---|
| 1. Facility (Inclusive of Building and Land) (FMV) | 0 |
| 2. Building Only                                   |   |
| 3. Land Only                                       |   |
| 4. Equipment (Specify)                             |   |
| 5. Other (Specify)                                 |   |

**Subsection B Total****0****C. Financing costs and fees**

|                                        |  |
|----------------------------------------|--|
| 1. Interim Financing                   |  |
| 2. Underwriting Costs                  |  |
| 3. Reserve for One Year's Debt Service |  |
| 4. Other (Specify)                     |  |

**Subsection C Total****0**

|                                       |               |
|---------------------------------------|---------------|
| D. Estimated Project Cost (A + B + C) | \$ 57,275,105 |
|---------------------------------------|---------------|

|                   |           |
|-------------------|-----------|
| E. CON Filing Fee | \$ 45,000 |
|-------------------|-----------|

|                                         |       |               |
|-----------------------------------------|-------|---------------|
| F. Total Estimated Project Cost (D + E) | TOTAL | \$ 57,320,105 |
|-----------------------------------------|-------|---------------|

June 27, 2016

9:26 am

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35331

**ACADIA HEALTHCARE COMPANY, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

45-2492228  
(I.R.S. Employer  
Identification No.)

6100 Tower Circle, Suite 1000  
Franklin, Tennessee 37067  
(Address, including zip code, of registrant's principal executive offices)

(615) 861-6000  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class  
Common Stock, \$.01 par value

Name of exchange on which registered  
NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

**June 27, 2016****9:26 am**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒Accelerated filer ☐Non-accelerated filer ☐ (Do not check if a smaller reporting company)Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2015, the aggregate market value of the shares of common stock of the registrant held by non-affiliates was approximately \$4.0 billion, based on the closing price of the registrant's common stock reported on the NASDAQ Global Select Market of \$78.33 per share.

As of February 25, 2016, there were 87,219,536 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2016 annual meeting of stockholders to be held on May 19, 2016 are incorporated by reference into Part III of this Form 10-K.

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**June 27, 2016****9:26 am**Table of Contents

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ANNUAL REPORT ON FORM 10-K  
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**SIGNATURES**

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Unless the context otherwise requires, all references in this Annual Report on Form 10-K to "Acadia," "the Company," "we," "us" or "our" mean Acadia Healthcare Company, Inc. and its consolidated subsidiaries.

**Item 1. Business.****Overview**

Our business strategy is to acquire and develop behavioral healthcare facilities and improve our operating results within our facilities and our other behavioral healthcare operations. We strive to improve the operating results of our facilities by providing high-quality services, expanding referral networks and marketing initiatives while meeting the increased demand for behavioral healthcare services through expansion of our current locations as well as developing new services within existing locations. At December 31, 2015, we operated 258 behavioral healthcare facilities with over 9,900 beds in 39 states, the United Kingdom and Puerto Rico. During the year ended December 31, 2015, we acquired 176 facilities with approximately 3,450 beds and added 670 new beds, including 460 to existing facilities and 210 in two de novo facilities. On February 16, 2016, we completed the acquisition of Priory Group No. 1 Limited ("Priory") which operated 327 facilities with approximately 7,100 beds at December 31, 2015. For the year ending December 31, 2016, we expect to add approximately 800 total beds exclusive of acquisitions.

We are the leading publicly traded pure-play provider of behavioral healthcare services, with operations in the United States and the United Kingdom. Management believes that the Company's recent acquisitions position the Company as a leading platform in a highly fragmented industry under the direction of an experienced management team that has significant industry expertise. Management expects to take advantage of several strategies that are more accessible as a result of our increased size and geographic scale, including continuing a national marketing strategy to attract new patients and referral sources, increasing our volume of out-of-state referrals, providing a broader range of services to new and existing patients and clients and selectively pursuing opportunities to expand our facility and bed count.

Acadia was formed as a limited liability company in the State of Delaware in 2005, and converted to a corporation on May 13, 2011. Our common stock is listed for trading on The NASDAQ Global Select Market under the symbol "ACHC." Our principal executive offices are located at 6100 Tower Circle, Suite 1000, Franklin, Tennessee 37067, and our telephone number is (615) 861-6000.

***Acquisitions***

On February 16, 2016, we completed the acquisition of Priory for a total purchase price of approximately \$2.2 billion, including total cash consideration of approximately \$1.9 billion and the issuance of 4,033,561 shares of our common stock. Priory is the leading independent provider of behavioral healthcare services in the United Kingdom.

On December 1, 2015, we completed the acquisition of certain facilities from MMO Behavioral Health Systems ("MMO"), including two acute inpatient behavioral health facilities with a total of 80 beds located in Jennings and Covington, Louisiana, for cash consideration of approximately \$20.2 million.

On November 1, 2015, we completed the acquisitions of (i) Discovery House-Group, Inc. ("Discovery House") for cash consideration of approximately \$118.5 million, (ii) Duffy's Napa Valley Rehab ("Duffy's") for cash consideration of approximately \$29.6 million and (iii) Cleveland House for approximately \$10.3 million. Discovery House operates 19 comprehensive treatment centers located in four states. Duffy's is a substance abuse facility with 61 beds located in Calistoga, California. Cleveland House is an inpatient psychiatric facility with 32 beds located in England.

On October 1, 2015, we completed the acquisition of Meadow View ("Meadow View"), an inpatient psychiatric facility with 28 beds located in England, for cash consideration of approximately \$6.8 million.

On September 1, 2015, we completed the acquisitions of (i) three facilities from The Danshell Group ("Danshell") for approximately \$59.8 million, (ii) two facilities from Health and Social Care Partnerships ("H&SCP") for approximately \$26.2 million and (iii) Manor Hall ("Manor Hall") for approximately \$14.0 million. The inpatient psychiatric facilities acquired from Danshell have an aggregate of 73 beds and are located in England. The inpatient psychiatric facilities acquired from H&SCP have an aggregate of 50 beds and are located in England. Manor Hall has 26 beds and is located in England.

On August 31, 2015, we completed the acquisition of a controlling interest in Southcoast Behavioral ("Southcoast"), an inpatient psychiatric facility located in Fairhaven, Massachusetts. We own 75% of the equity interests in the facility.



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On July 1, 2015, we completed the acquisition of the assets of Belmont Behavioral Health ("Belmont"), an inpatient psychiatric facility with 147 beds located in Philadelphia, Pennsylvania for cash consideration of approximately \$38.2 million which consists of \$35.0 million base purchase price and an estimated working capital settlement of \$3.2 million.

On July 1, 2015, we completed the acquisition of The Manor Clinic ("The Manor Clinic"), a substance abuse facility with 15 beds located in England, for cash consideration of approximately \$5.9 million.

On June 1, 2015, we completed the acquisitions of (i) one facility from Choice for approximately \$25.9 million and (ii) 15 facilities from Care UK Limited ("Care UK") for approximately \$88.2 million. The inpatient psychiatric facility acquired from Choice has 42 beds and is located in England. The inpatient psychiatric facilities acquired from Care UK have an aggregate of 299 beds and are located in England.

On April 1, 2015, we completed the acquisitions of (i) two facilities from Choice Lifestyles ("Choice") for approximately \$37.5 million, (ii) Pastoral Care Group ("Pastoral") for approximately \$34.2 million and (iii) Mildmay Oaks f/k/a Vista Independent Hospital ("Mildmay Oaks") for approximately \$14.9 million. The two inpatient psychiatric facilities acquired from Choice have an aggregate of 48 beds and are located in England. Pastoral operates two inpatient psychiatric facilities with an aggregate of 65 beds located in Wales. Mildmay Oaks is an inpatient psychiatric facility with 67 beds located in England.

On March 1, 2015, we acquired the stock of Quality Addictions Management, Inc. ("QAM") for total consideration of approximately \$54.8 million. QAM operates seven comprehensive treatment centers located in Wisconsin.

On February 11, 2015, we completed the acquisition of CRC Health Group, Inc. ("CRC") for total consideration of approximately \$1.3 billion. As consideration for the acquisition, we issued 5,975,326 shares of our common stock to certain holders of CRC common stock and repaid CRC's outstanding indebtedness. CRC is a leading provider of treatment services related to substance abuse and other addiction and behavioral disorders. CRC operated 35 inpatient facilities with over 2,400 beds and 81 comprehensive treatment centers located in 30 states at the acquisition date.

On December 31, 2014, we completed the acquisition of Skyway House ("Skyway"), a substance abuse facility with 28 beds located in Chico, California, for cash consideration of \$0.3 million. On December 1, 2014, we acquired the assets of Croxton Warwick Lodge ("Croxton"), an inpatient psychiatric facility with 24 beds located in England, for cash consideration of \$15.6 million. On September 3, 2014, we completed the acquisition of McCallum Place ("McCallum"), an eating disorder treatment facility with 85 beds offering residential, partial hospitalization and intensive outpatient treatment programs located in St. Louis, Missouri, and Austin, Texas, for total consideration of \$37.4 million. On July 1, 2014, we acquired Partnerships in Care for cash consideration of \$661.7 million, which was net of cash acquired of \$12.0 million and the gain on settlement of foreign currency derivatives of \$15.3 million. At the acquisition date, Partnerships in Care was the second largest independent provider of inpatient behavioral healthcare services in the United Kingdom, operating 23 inpatient behavioral healthcare facilities with over 1,200 beds. On January 1, 2014, we acquired the assets of Pacific Grove Hospital ("Pacific Grove"), an inpatient psychiatric facility with 68 beds located in Riverside, California, for cash consideration of \$10.5 million.

For the years ended December 31, 2015 and 2014, we generated revenue of \$1.8 billion and \$1.0 billion, respectively. On a pro forma basis for the years ended December 31, 2015 and 2014, giving effect to Pacific Grove, Partnerships in Care, McCallum, Croxton, Skyway, CRC, QAM, Choice, Pastoral, Mildmay Oaks, Care UK, The Manor Clinic, Belmont, Southcoast, Danshell, H&SCP, Manor Hall, Meadow View, Cleveland House, Duffy's, Discovery House and MMO (collectively the "2014 and 2015 Acquisitions") and the acquisition of Priory described above as if such acquisitions had been completed as of January 1, 2014, we would have generated pro forma revenue of \$2.9 billion and \$2.7 billion, respectively. See "Pro Forma Financial Information" and "Note 4 – Acquisitions in the Consolidated Financial Statements" for additional details about pro forma information.

During 2013, we completed our acquisitions of Greenleaf Center, DMC-Memphis, Inc. d/b/a Delta Medical Center, two facilities from United Medical Corporation, The Refuge, a Healing Place, Longleaf Hospital and Cascade Behavioral Hospital.

***Financing Transactions***

On February 16, 2016, we issued \$390.0 million of 6.500% Senior Notes due 2024 (the "6.500% Senior Notes"). The 6.500% Senior Notes mature on March 1, 2024 and bear interest at a rate of 6.500% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016. We used the net proceeds to fund a portion of the purchase price for the acquisition of Priory and the fees and expenses for such acquisition and the related financing transactions.

On February 16, 2016, we entered into a Second Incremental Facility Amendment (the "Second Incremental Amendment") to our Amended and Restated Credit Agreement, dated as of December 31, 2012 (the "Amended and Restated Credit Agreement"). The



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Second Incremental Amendment activated a new \$955.0 million incremental Term Loan B facility (the "New TLB Facility") and added \$135.0 million to the Term Loan A facility (the "TLA Facility") to our Amended and Restated Senior Secured Credit Facility (the "Amended and Restated Senior Credit Facility"), subject to limited conditionality provisions. Borrowings under the New TLB Facility were used to fund a portion of the purchase price for the acquisition of Priory and the fees and expenses for such acquisition and the related financing transactions. Borrowings under the TLA Facility were used to pay down the majority of our \$300.0 million revolving credit facility.

On January 25, 2016, we entered into the Ninth Amendment (the "Ninth Amendment") to the Amended and Restated Senior Credit Facility. The Ninth Amendment modifies certain definitions and provides increased flexibility to us in terms of our financial covenants.

On January 12, 2016, we completed the offering of 11,500,000 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that we granted to the underwriters as part of the offering) at a public offering price of \$61.00 per share. The net proceeds to us from the sale of the shares, after deducting the underwriting discount of \$15.8 million and additional offering related costs of \$0.7 million, were approximately \$685.0 million. We used the net offering proceeds to fund a portion of the purchase price for the acquisition of Priory.

On September 21, 2015, we issued \$275.0 million of additional 5.625% Senior Notes due 2033 (the "5.625% Senior Notes"). The additional notes form a single class of debt securities with the existing 5.625% Senior Notes. Giving effect to this issuance, we have outstanding and aggregate of \$650.0 million of 5.625% Senior Notes.

On September 21, 2015, we purchased approximately \$88.3 million aggregate principal amount of 12.875% Senior Notes due 2018 (the "12.875% Senior Notes") in connection with a tender offer for any and all of the 12.875% Senior Notes. The notes purchased represented 90.6% of the outstanding \$97.5 million principal amount of 12.875% Senior Notes. The 12.875% Senior Notes were purchased at a price of 107.875% of the principal amount thereof plus accrued and unpaid interest to, but not including, September 21, 2015. On September 18, 2015, we delivered a notice to redeem all \$9.2 million in principal amount of the 12.875% Senior Notes remaining outstanding following the consummation of the tender offer. On November 1, 2015, we redeemed all of the outstanding \$9.2 million principal amount of the 12.875% Senior Notes. As a result of this redemption, both the 12.875% Senior Notes and the indenture governing the 12.875% Senior Notes were satisfied and discharged in accordance with their terms. In connection with the purchase of notes, the Company recorded a debt extinguishment charge of approximately \$10.8 million for the year ended December 31, 2015, including the premium and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the accompanying consolidated statements of income.

On May 11, 2015, we completed the offering of 5,175,000 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that we granted to the underwriters as part of the offering) at a price of \$66.50 per share. The net proceeds to us from the sale of the shares, after deducting the underwriting discount of \$12.0 million and additional offering-related costs of \$0.8 million, were \$331.3 million. We used the net offering proceeds to repay outstanding indebtedness and fund acquisitions.

On April 22, 2015, we entered into an Eighth Amendment to our Amended and Restated Credit Agreement (the "Eighth Amendment"). The Eighth Amendment changed the definition of "Change of Control" in part to remove a provision whose purpose was, when calculating whether a majority of incumbent directors have approved new directors, that any incumbent director that became a director as a result of a threatened or actual proxy contest was not counted in such calculation.

On February 11, 2015, we issued \$375.0 million of 5.625% Senior Notes. The 5.625% Senior Notes mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2015. We used the net proceeds to fund a portion of the consideration for the acquisition of CRC.

On February 11, 2015, we entered into a First Incremental Facility Amendment (the "First Incremental Amendment") to the Amended and Restated Credit Agreement. The First Incremental Amendment activated a new \$500.0 million incremental Term Loan B facility (the "Existing TLB Facility") that was added to the Amended and Restated Senior Secured Credit Facility, subject to limited conditionality provisions. Borrowings under the Existing TLB Facility were used to fund a portion of the consideration for the acquisition of CRC.

On February 6, 2015, we entered into a Seventh Amendment (the "Seventh Amendment") to our Amended and Restated Credit Agreement. The Seventh Amendment added Citibank, N.A. as an "L/C Issuer" under the Amended and Restated Credit Agreement in order to permit the rollover of CRC's existing letters of credit into the Amended and Restated Credit Agreement and increased both the Company's Letter of Credit Sublimit and Swing Line Sublimit to \$20.0 million.

On December 15, 2014, we entered into a Sixth Amendment (the "Sixth Amendment") to our Amended and Restated Credit Agreement. Pursuant to the Sixth Amendment, we incurred \$235.0 million of additional term loans. A portion of the additional term

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loan advance was used to prepay our outstanding revolving loans, and a portion of the additional term loan advance was held as cash on our consolidated balance sheet. The Sixth Amendment also specifically permitted the acquisition of CRC. In connection with the acquisition of CRC, the Sixth Amendment (i) imposed a temporary reserve on our revolving credit facility in the amount of \$110.0 million in order to preserve such reserved amounts for later borrowings to partially fund the consideration for the acquisition of CRC (subject to limited conditionality provisions) (the reserve is no longer in effect due to the acquisition of CRC), (ii) permitted the incurrence of an additional incremental term loan facility under the Amended and Restated Credit Agreement partially to fund the consideration for the acquisition of CRC (subject to limited conditionality provisions) and (iii) permitted our issuance of additional senior unsecured indebtedness or senior unsecured bridge indebtedness partially to fund the consideration for the acquisition of CRC.

On July 1, 2014, we issued \$300.0 million of 5.125% Senior Notes due 2022 (the "5.125% Senior Notes"). The 5.125% Senior Notes mature on July 1, 2022 and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2015. We used the net proceeds to fund a portion of the consideration for the acquisition of Partnerships in Care.

On June 17, 2014, we completed the offering of 8,881,794 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that we granted to the underwriters as part of the offering) at a price of \$44.00 per share. The net proceeds to us from the sale of the shares, after deducting the underwriting discount of \$15.6 million and additional offering-related expenses of \$0.8 million, were \$374.4 million. We used the net offering proceeds to fund a portion of the consideration for the acquisition of Partnerships in Care.

On June 16, 2014, we entered into a Fifth Amendment (the "Fifth Amendment") to the Amended and Restated Credit Agreement. The Fifth Amendment specifically permitted our acquisition of Partnerships in Care, gave us the ability to incur a tranche of term loan B debt in the future through its incremental credit facility, and modified certain of the restrictive covenants on miscellaneous investments and incurrence of miscellaneous liens. The restrictive covenants on investments in joint ventures and foreign subsidiaries were also amended such that we may now invest, in any given fiscal year, up to five percent (5%) of its total assets in both joint ventures and foreign subsidiaries, respectively; provided that the aggregate amount of investments in both joint ventures and foreign subsidiaries, respectively, may not exceed ten percent (10%) of its total assets over the life of the Amended and Restated Senior Credit Facility; provided further that the aggregate amount of investments made in both joint ventures and foreign subsidiaries collectively pursuant to the foregoing may not exceed fifteen percent (15%) of its total assets. Finally, the Fifth Amendment provided increased flexibility to us in terms of its financial covenants.

On February 13, 2014, we entered into a Fourth Amendment (the "Fourth Amendment") to our Amended and Restated Credit Agreement, to increase the size of our Amended and Restated Senior Credit Facility and extend the maturity date thereof, which resulted in our having a revolving line of credit of up to \$300.0 million and term loans of \$300.0 million. The Fourth Amendment also reduced the interest rates applicable to the Amended and Restated Senior Credit Facility and provided increased flexibility to us in terms of our financial and other restrictive covenants.

On March 12, 2013, we issued \$150.0 million of 6.125% Senior Notes due 2021 (the "6.125% Notes" and together with the 5.125% Senior Notes, the 5.625% Senior Notes and the 6.500% Senior Notes, the "Senior Notes"). The 6.125% Senior Notes mature on March 15, 2021 and bear interest at a rate of 6.125% per annum, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2013.

On March 12, 2013, we redeemed \$52.5 million of the 12.875% Senior Notes using a portion of the net proceeds of our December 2012 equity offering pursuant to the provision in the indenture permitting an optional redemption with equity proceeds of up to 35% of the principal amount of 12.875% Senior Notes. The 12.875% Senior Notes were redeemed at a redemption price of 112.875% of the principal amount thereof plus accrued and unpaid interest to, but not including, the redemption date in accordance with the provisions of the indenture governing the 12.875% Senior Notes. As part of the redemption of 35% of the 12.875% Senior Notes, we recorded a debt extinguishment charge of \$9.4 million, including the premium and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the consolidated statements of income.

On December 31, 2012, we amended and restated our existing senior secured credit agreement, to provide a revolving line of credit of \$100.0 million and term loans of \$300.0 million, which resulted in debt proceeds of \$151.1 million. We used \$151.1 million of the term loans partially to fund the acquisition of Behavioral Centers of America, LLC ("BCA") and AmiCare Behavioral Centers, LLC ("AmiCare") on December 31, 2012. The credit agreement was amended further in 2013 and 2014 as disclosed above and in our other filings with the Securities and Exchange Commission ("SEC").

On December 12, 2012, we completed the offering of 7,000,000 shares of Acadia common stock and on December 24, 2012, we completed the offering of 1,050,000 shares of Acadia common stock sold pursuant to the exercise of the over-allotment option that we granted to the underwriters as part of the offering at a price of \$22.50 per share. The net proceeds to us from the sale of the shares, after deducting the underwriting discount of \$6.3 million and additional offering-related expenses of \$1.0 million, were \$172.8 million. We used the net proceeds principally to fund the acquisitions of AmiCare and BCA on December 31, 2012.

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On May 21, 2012, we completed the offering of 9,487,500 shares of Acadia common stock (including shares sold pursuant to the exercise of the over-allotment option that we granted to the underwriters as part of the offering) at a price of \$15.50 per share. The net proceeds to us from the sale of the shares, after deducting the underwriting discount of \$6.4 million and additional offering-related expenses of \$0.7 million, were \$139.0 million. We used the net offering proceeds to fund the acquisition of Timberline Knolls, LLC and acquisitions of certain facilities previously leased.

**Competitive Strengths**

Management believes the following strengths differentiate us from other providers of behavioral healthcare services:

**Premier operational management team with track record of success.** Our management team has over 185 combined years of experience in acquiring, integrating and operating a variety of behavioral health facilities. Following the sale of Psychiatric Solutions, Inc. ("PSI") to Universal Health Services, LLC ("UHS") in November 2010, certain of PSI's key former executive officers joined Acadia in February 2011. The extensive national experience and operational expertise of our management team give us what management believes to be the premier leadership team in the behavioral healthcare industry. Our management team strives to use its years of experience operating behavioral healthcare facilities to generate strong cash flow and grow a profitable business.

**Favorable industry and legislative trends.** According to a 2012 survey by Substance Abuse and Mental Health Services Administration of the U.S. Department of Health and Human Services ("SAMHSA"), 18.6% of adults in the United States aged 18 years or older suffer from a mental illness in a given year and about 4% suffer from a serious mental illness. According to the National Institute of Mental Health, over 20% of children, either currently or at some point in their life, have had a seriously debilitating mental disorder. Management believes the market for behavioral services will continue to grow due to increased awareness of mental health and substance abuse conditions and treatment options. According to a 2014 SAMHSA report, national expenditures at substance abuse treatment facilities are expected to reach \$42.1 billion in 2020, up from \$24.3 billion in 2009.

While the growing awareness of mental health and substance abuse conditions is expected to accelerate demand for services, recent healthcare reform in the United States is expected to increase access to industry services as more people obtain insurance coverage. A key aspect of reform legislation is the extension of mental health parity protections established into law by the Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008 (the "MHPAEA"). The MHPAEA requires employers who provide behavioral health and addiction benefits to provide such coverage to the same extent as other medical conditions.

The mental health hospitals market in the United Kingdom was roughly £14.4 billion in 2011. As a result of government budget constraints and an increased focus on quality, the independent mental health hospitals market has witnessed significant expansion in the last decade, making it one of the fastest growing sectors in the United Kingdom healthcare industry. Demand for independent sector beds has grown significantly as a result of the National Health Service (the "NHS") reducing its bed capacity and increasing hospitalization rates. Independent sector demand is expected to further increase in light of additional bed closures and reduction in community capacity by the NHS.

**Leading platform in attractive healthcare niche.** We are a leading behavioral healthcare platform in an industry that is undergoing consolidation in an effort to reduce costs and expand programs to better serve the growing need for inpatient behavioral healthcare services.

**Diversified revenue and payor bases.** As of December 31, 2015, we operated 258 facilities in 39 states, the United Kingdom and Puerto Rico. On a pro forma basis as of December 31, 2015, giving effect to the Priory acquisition, we would have operated 585 facilities in 39 states, the United Kingdom and Puerto Rico. Our payor, patient and geographic diversity mitigates the potential risk associated with any single facility. For the year ended December 31, 2015, we received 33% from Medicaid, 20% from the NHS (including Local Authorities in the United Kingdom), 23% from commercial payors, 12% from Medicare and 12% from other payors. On a pro forma basis for the year ended December 31, 2015, giving effect to the 2014 and 2015 Acquisitions and the Priory acquisition, we would have received 23% of our revenue from Medicaid, 41% from the NHS (including Local Authorities in the United Kingdom), 16% from commercial payors, 8% from Medicare and 12% from other payors. As we receive Medicaid payments from 43 states, the District of Columbia and Puerto Rico, management does not believe that we are significantly affected by changes in reimbursement policies in any one state or territory. Substantially all of our Medicaid payments relate to the care of children and adolescents. Management believes that children and adolescents are a patient class that is less susceptible to reductions in reimbursement rates. No facility accounted for more than 2% of revenue for the year ended December 31, 2015 on a pro forma basis giving effect to the 2014 and 2015 Acquisitions and the Priory acquisition, and no state or U.S. territory accounted for more than 6% of revenue for the year ended December 31, 2015. We believe that our increased geographic diversity will mitigate the impact of any financial or budgetary pressure that may arise in a particular state or market where we operate.

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**Strong cash flow generation and low capital requirements.** We generate strong free cash flow by profitably operating our business and by actively managing our working capital. Moreover, as the behavioral healthcare business does not typically require the procurement and replacement of expensive medical equipment, our maintenance capital expenditure requirements are generally less than that of other facility-based healthcare providers. For the year ended December 31, 2015, our maintenance capital expenditures amounted to approximately 3% of our revenue. In addition, our accounts receivable management is less complex than medical/surgical hospital providers because behavioral healthcare facilities have fewer billing codes and generally are paid on a per diem basis.

**Business Strategy**

We are committed to providing the communities we serve with high-quality, cost-effective behavioral healthcare services, while growing our business, increasing profitability and creating long-term value for our stockholders. To achieve these objectives, we have aligned our activities around the following growth strategies:

**Increase margins by enhancing programs and improving performance at existing facilities.** Management believes we can improve efficiencies and increase operating margins by utilizing our management's expertise and experience within existing programs and their expertise in improving performance at underperforming facilities. Management believes the efficiencies can be realized by investing in growth in strong markets, addressing capital-constrained facilities that have underperformed and improving management systems. Furthermore, our recent acquisitions of additional facilities give us an opportunity to develop a marketing strategy in many markets which should help us increase the geographic footprint from which our existing facilities attract patients and referrals.

**Opportunistically pursue acquisitions.** With the completed acquisitions of Priory, CRC and Partnerships in Care, we have positioned our company as a leading provider of mental health services in the United States and the United Kingdom. The behavioral healthcare industry in the United States and the independent behavioral healthcare industry in the United Kingdom are highly fragmented, and we selectively seek opportunities to expand and diversify our base of operations by acquiring additional facilities. Acadia management believes there are a number of acquisition candidates available at attractive valuations, and we have a number of potential acquisitions in various stages of development and consideration in the United States. In addition, management sees meaningful opportunities to pursue additional select acquisitions in the United Kingdom.

Management believes our focus on behavioral healthcare and history of completing acquisitions provides us with a strategic advantage in sourcing, evaluating and closing acquisitions. We leverage our management team's expertise to identify and integrate acquisitions based on a disciplined acquisition strategy that focuses on quality of service, return on investment and strategic benefits. We also have a comprehensive post-acquisition strategic plan to facilitate the integration of acquired facilities that includes improving facility operations, retaining and recruiting psychiatrists and other healthcare professionals and expanding the breadth of services offered by the facilities.

**Drive organic growth of existing facilities.** We seek to increase revenue at our facilities by providing a broader range of services to new and existing patients and clients. In addition, management intends to increase bed counts in our existing facilities. During the year ended December 31, 2015, we acquired 176 facilities and added 670 new beds, including 460 to our existing facilities and 210 in two de novo facilities. Furthermore, management believes that opportunities exist to leverage out-of-state referrals to increase volume and minimize payor concentration in the United States, especially with respect to our youth and adolescent focused services and our substance abuse services.

**U.S. Operations**

Our U.S. facilities and services can generally be classified into the following categories: acute inpatient psychiatric facilities; specialty treatment facilities; residential treatment centers; and outpatient community-based services. The table below presents the percentage of our total revenue attributed to each category on a pro forma basis giving effect to the 2014 and 2015 Acquisitions for the year ended December 31, 2015:

| <u>Facility/Service</u>                | <u>Revenue for the<br/>Year Ended December 31, 2015</u> |
|----------------------------------------|---------------------------------------------------------|
| Acute inpatient psychiatric facilities | 40%                                                     |
| Specialty treatment facilities         | 41%                                                     |
| Residential treatment centers          | 16%                                                     |
| Outpatient community-based services    | 3%                                                      |

We receive payments from the following sources for services rendered in our U.S. facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare



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program administered by CMS; and (iv) individual patients and clients. For the year ended December 31, 2015 in our U.S. facilities, we received 41% from Medicaid, 29% from commercial payors, 15% from Medicare and 15% from other payors. On a pro forma basis for the year ended December 31, 2015 in our U.S. facilities, giving effect to the 2014 and 2015 Acquisitions, we would have received 42% of our revenue from Medicaid, 29% from commercial payors, 15% from Medicare and 16% from other payors.

At December 31, 2015, our U.S. facilities included 204 behavioral healthcare facilities with approximately 7,700 beds in 39 states and Puerto Rico. Of the 204 behavioral healthcare facilities, 109 are comprehensive treatment centers, of which 98 are leased properties. Of the remaining 95 facilities, 71 are owned properties and 24 are leased properties.

***Acute Inpatient Psychiatric Facilities***

Acute inpatient psychiatric facilities provide a high level of care in order to stabilize patients that are either a threat to themselves or to others. The acute setting provides 24-hour observation, daily intervention and monitoring by psychiatrists. Generally, due to shorter lengths of stay, the related higher patient turnover, and the special security and health precautions required, acute inpatient psychiatric facilities have lower average occupancy than residential treatment centers. Our facilities that offer acute care services provide evaluation and crisis stabilization of patients with severe psychiatric diagnoses through a medical delivery model that incorporates structured and intensive medical and behavioral therapies with 24-hour monitoring by a psychiatrist, psychiatric trained nurses, therapists and other direct care staff. Lengths of stay for crisis stabilization and acute care range from three to five days and from five to twelve days, respectively.

***Specialty Treatment Facilities***

Our specialty treatment facilities include residential recovery facilities, eating disorder facilities and comprehensive treatment centers ("CTCs"). We provide a comprehensive continuum of care for adults with addictive disorders and co-occurring mental disorders. Our detoxification, inpatient, partial hospitalization and outpatient treatment programs are cost-effective and give patients access to the least restrictive level of care. All programs offer individualized treatment in a supportive and nurturing environment.

The majority of our specialty treatment services are provided to patients who abuse addictive substances such as alcohol, illicit drugs or opiates, including prescription drugs. Some of our facilities also treat other addictions and behavioral disorders such as chronic pain, sexual compulsivity, compulsive gambling, mood disorders, emotional trauma and abuse. The goal of our treatment facilities is to provide the appropriate level of treatment to an individual no matter where they are in the lifecycle of their disease in order to restore the individual to a healthier, more productive life, free from dependence on illicit substances and destructive behaviors. Our treatment facilities provide a number of different treatment services such as assessment, detoxification, medication-assisted treatment, counseling, education, lectures and group therapy. We assess and evaluate the medical, psychological and emotional needs of the patient and addresses these needs in the treatment process. Following this assessment, an individualized treatment program is designed to provide a foundation for a lifelong recovery process. Many modalities are used in our treatment programs to support the individual, including the twelve step philosophy, cognitive/behavioral therapies, supportive therapies and continuing care.

***Residential Recovery Facilities.*** Our inpatient facilities house and care for patients over an extended period and typically treat patients from a broadly defined regional market. We provide three basic levels of residential treatment depending on the severity of the patient's addiction and/or behavioral disorder. Patients with the most severe dependencies are typically placed into inpatient treatment, in which the patient resides at a treatment facility. If a patient's condition is less severe, he or she will be offered day treatment, which allows the patient to return home in the evening. The least intensive service is where the patient visits the facility for just a few hours a week to attend counseling/group sessions.

Following primary treatment, our extended care programs typically offer residential care, which allows patients to develop healthy and appropriate living skills while remaining in a safe and nurturing setting. Patients are supported in their recovery by a semi-structured living environment that allows them to begin the process of employment or to pursue educational goals and to take personal responsibility for their recovery. The structure of this treatment phase is monitored by a primary therapist who works with each patient to integrate recovery skills and build a foundation of sobriety with a strong support system. Length of stay will vary depending on the patient's needs with a minimum stay of 30 days and could be multiple months if needed.

Our outpatient clinics serve patients that do not require inpatient treatment or are transitioning from a residential treatment program; have employment, family or school commitments; and have stabilized in their substance addiction recovery practices and are seeking ongoing continuing care.

***Eating Disorder Facilities.*** Our eating disorder facilities provide treatment services for eating disorders and weight management, each of which may be effectively treated through a combination of medical, psychological and social treatment programs.

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***Comprehensive Treatment Centers.*** Our CTCs specialize in providing medication-assisted and abstinence-based treatment. Medication-assisted treatment combines behavioral therapy and medication to treat substance use disorders. CTCs utilize medication-assisted treatment to individuals addicted to opiates such as opioid analgesics (prescription pain medications) and heroin. Medication is used to normalize brain chemistry to block the euphoric effects of alcohol and opioids allowing our professional staff to provide behavioral therapy. Patients begin their treatment attending the clinic almost daily. Then, through successfully progressing in treatment, patients attend less frequently depending on individual treatment plans. The length of treatment differs from patient to patient, but typically ranges from one to three years.

Each of our CTCs provide a range of comprehensive substance abuse treatment support services that include medical, counseling, vocational, educational, and other treatment services. Our behavioral therapies are delivered in array of treatment models that may include individual and group therapy, intensive outpatient, outpatient, partial hospitalization/day treatment, road to recovery, and other programs that can be either abstinence or medication assisted based.

***Residential Treatment Centers***

Residential treatment centers treat patients with behavioral disorders in a non-hospital setting, including outdoor programs. The facilities balance therapy activities with social, academic and other activities. Because the setting is less intensive, demands on staffing, security and oversight are generally lower than inpatient psychiatric facilities. In contrast to acute care psychiatric facilities, occupancy in residential treatment centers can be managed more easily given a longer length of stay. Over time, however, residential treatment centers have continued to serve increasingly severe patients who would have been treated in acute care facilities in earlier years.

We provide residential treatment care through a medical model residential treatment facility, which offers intensive, medically-driven interventions and individualized treatment regimens designed to deal with moderate to high level patient acuity. Children and adolescents admitted to these facilities typically have had multiple prior failed treatment plans, severe physical, sexual and emotional abuse, termination of parental custody, substance abuse, marked deficiencies in social, interpersonal and academic skills and a wide range of psychiatric disorders. Treatment typically is provided by an interdisciplinary team coordinating psychopharmacological, individual, group and family therapy, along with specialized accredited educational programs in both secure and unlocked environments. Lengths of stay range from three months to several years.

Certain of our residential treatment centers provide group home, therapeutic group home and therapeutic foster care programs. Our group home programs provide family-style living for youths in a single house or apartment within residential communities where supervision and support are provided by 24-hour staff. The goal of a group home program is to teach family living and social skills through individual and group counseling sessions within a real life environment. The residents are encouraged to take responsibility for the home and their health as well as actively take part in community functions. Most attend an accredited and licensed on-premises school or a local public school. We also operate therapeutic group homes that provide comprehensive treatment services for seriously, emotionally disturbed adolescents. The ultimate goal is to reunite or place these children with their families or prepare them, when appropriate, for permanent placement with a relative or an adoptive family. We also manage therapeutic foster care programs, which are considered the least restrictive form of therapeutic placement for children and adolescents with emotional disorders. Children and adolescents in our therapeutic foster care programs often are part of the child welfare or juvenile justice system. Care is delivered in private homes with experienced foster parents who are trained to work with children and adolescents with special needs.

***Outpatient Community-Based Services***

Our community-based services can be divided into two age groups: children and adolescents (seven to 18 years of age) and young children (three months to six years of age). Community-based programs are designed to provide therapeutic treatment to children and adolescents who have a clinically-defined emotional, psychiatric or chemical dependency disorder while enabling the youth to remain at home and within their community. Many patients who participate in community-based programs have transitioned out of a residential facility or have a disorder that does not require placement in a facility that provides 24-hour care.

Community-based programs developed for these age groups provide a unique array of therapeutic services to a very high-risk population of children. These children suffer from severe congenital, neurobiological, speech/motor and early onset psychiatric disorders. These services are provided in clinics and employ a treatment model that is consistent with our interdisciplinary medical treatment approach. Depending on their individual needs and treatment plan, children receive speech, physical, occupational and psychiatric interventions that are coordinated with services provided by their referring primary care physician. The children generally receive treatment during regular business hours.

**Table of Contents****U.K. Operations*****Overview***

With the Priory and Partnerships in Care acquisitions, we are the leading independent provider of mental health services in the United Kingdom, operating 381 inpatient behavioral health facilities with approximately 9,300 beds. The facilities are located in England, Wales, Scotland and Northern Ireland. For the year ended December 31, 2015 and 2014, our U.K. facilities generated revenue of \$360.7 million and \$151.1 million, respectively, primarily through the operation and management of inpatient behavioral health facilities.

***United Kingdom Mental Health Industry***

In the United Kingdom, central government spending on health for fiscal year 2015-2016 is budgeted at approximately £141 billion, according to the United Kingdom government budget. This spending is primarily delivered by the NHS, a national public sector body. Local government spending on health and social care for the fiscal year 2015-2016 is budgeted at approximately £25.1 billion and is commissioned by Local Authorities in the United Kingdom, which we refer to as Local Authorities. The NHS and Local Authorities dominate the United Kingdom healthcare market in terms of the funding of care, with private health insurers and self-payment playing a lesser role in the sector.

The mental health market in the United Kingdom accounted for approximately £14.4 billion in 2011. The independent mental health market accounted for roughly £1.1 billion of that amount, or approximately 8% market share. As a result of government budget constraints and an increased focus on quality, the independent mental health market has witnessed significant expansion in the last decade, making it one of the fastest growing sectors in the United Kingdom healthcare industry.

Mental health services in the United Kingdom are provided through three separate commissioning entities, each with their own separate budget and defined service responsibilities. The three entities are as follows: (i) Local Area Teams, which commission specialist mental health services (e.g., secure facilities and some acute facilities), (ii) Clinical Commissioning Groups, which commission all acute, rehabilitation and most community based services, and (iii) Local Authorities, which commission the remaining community mental health services (which focus primarily on learning disability services). In recent years, the NHS has placed increasing emphasis on implementing integrated care pathways in its mental health commissioning strategy, and the three commissioning entities are currently working to implement an integrated care pathways strategy through which all the services within the secure pathway are commissioned from the same provider (or provider consortium). Integrated care pathways provide patients with highly coordinated and personalized care overseen by a single provider that can monitor patient progression through each stage of the care pathway.

Additionally, commissioning trends toward moving patients more quickly down care pathways, out of secure settings and into community focused care teams have increased the demand for community and rehabilitation services in the independent mental health market. The United Kingdom Department of Health recently identified priorities for essential change in mental health that include, among other things, funding providers based on the quality of their service rather than volume of patients, allocating funds to support specialized housing for people with mental health problems and adopting a new rating system and inspection process to improve the quality of care. Increasing political focus on the provision of mental health services in the United Kingdom and increasing support for the rights of mental health patients are expected to lead to further increases in the size of the mental health market in the United Kingdom. In addition, rising demand for mental health services in the United Kingdom coupled with a constrained mental healthcare funding environment are increasing pressure to improve operational efficiency and refer patients to single provider programs with care pathways that more appropriately reflect each patient's specific mental health needs. As a result of these pressures and an increased focus on quality, the independent mental health market has witnessed significant expansion in the last decade, making it one of the fastest growing sectors in the United Kingdom healthcare industry.



Table of Contents**Description of U.K. Facilities**

In the United Kingdom, we provide inpatient services through a variety of facilities, including mental health hospitals, clinics, care homes, schools, colleges and children's homes. In addition to these services, we also operate a U.K. division that leverages on our clinical knowledge to provide Employee Assistance Programs ("EAP") to organizations.

Our U.K. facilities and services can generally be classified into the following categories: healthcare facilities, education and children's services, adult care facilities and elderly care facilities. The table below presents the percentage of our total revenue attributed to each category on a pro forma basis giving effect to the 2014 and 2015 Acquisitions and the Priority acquisition for the year ended December 31, 2015:

| <u>Facility/Service</u>           | <u>Revenue for the<br/>Year Ended December 31, 2015</u> |
|-----------------------------------|---------------------------------------------------------|
| Healthcare facilities             | 65%                                                     |
| Education and Children's Services | 13%                                                     |
| Adult Care facilities             | 13%                                                     |
| Elderly Care facilities           | 9%                                                      |

We receive payments from the NHS (including over 400 Local Authorities) and individual patients and clients. For the year ended December 31, 2015 in our U.K. facilities, we received 99% of our revenue from the NHS (including Local Authorities) and 1% from other payors. On a pro forma basis for the year ended December 31, 2015 in our U.K. facilities, giving effect to the 2014 and 2015 Acquisitions and the Priority acquisition, we would have received 93% of our revenue from the NHS (including Local Authorities) and 7% from other payors.

At December 31, 2015, our U.K. facilities included 54 behavioral healthcare facilities with approximately 2,200 beds in the United Kingdom. At December 31, 2015, all of our U.K. Facilities were owned properties.

**Healthcare**

In the United Kingdom, mental health hospitals provide psychiatric treatment and nursing for sufferers of mental disorders, specifically for patients detained under a section of the United Kingdom's Mental Health Act of 1983, and whose risk of harm to others and risk of escape from hospitals cannot be managed safely within other mental health settings. In order to manage the risks involved with treating patients, the facility is managed through the application of a range of security measures depending on the level of dependency and risk exhibited by the patient. The levels of dependency and risk stemming from the wide range of disorders treated at these hospitals determine the level of care provided, which are comprised of:

- **Secure Services.** Medium secure facilities treat patients who may present a serious danger to others and themselves but do not need the physical security arrangements of a high security hospital. The purpose of medium secure services is to provide effective care and treatment to reduce risk, promote recovery and support patients moving through the care pathway to lower levels of security or to reestablishing themselves successfully in the community. Low secure facilities provide treatment for patients whom, because of the level of risk or challenge they present, cannot be treated in open mental health settings. Low secure services deliver intensive, comprehensive and multidisciplinary treatment to patients demonstrating disturbed behavior in the context of a serious mental disorder and require the provision of security but pose a lesser risk of harm to themselves and to others.
- **Specialty Treatment Services.** Specialty treatment services provide treatment relating to eating disorders and addiction. Our eating disorder facilities provide treatment services for eating disorders and weight management for both adults and adolescents. Our addiction services provide treatment for abuse of addictive substances such as alcohol and illicit drugs as well as facilities for other addictions and behavioral disorders such as compulsive gambling.
- **Child and Adolescent Mental Health Services.** Child and adolescent mental health services provide treatment to young people in need of expert care and support for behavioral, emotional or mental health difficulties. These services are designed to enable the children and young people within our care to improve their long-term wellbeing and effectively reintegrate into the community when they are ready.
- **Rehabilitation Services.** Both locked and open mental health rehabilitation services provide a bridge between secure hospital facilities and community living by providing relapse prevention and social integration services as well as vocational opportunities.
- **Acute Services.** Acute services provide treatment relating to emergency admissions for patients at risk to themselves or others, as well as crisis intervention and treatment of behavioral emergencies.



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- *Care Homes.* Care homes provide long-term, non-acute care for adults suffering from a mental illness or addiction, or who have a learning disability or brain injury and are unable to cope unsupported in the community.

**Other Services**

- *Education and Children's Services.* Education and children's services provide specialist education for children and young people with special educational needs, including autism, Asperger's Syndrome, social, emotional and mental health, and specific learning difficulties, such as dyslexia. The division also offers standalone children's homes for children that require 52-week residential care to support complex and challenging behavior and fostering services.
- *Adult Care.* Adult Care focuses on care of service users with a variety of learning difficulties, mental health illnesses and adult autism spectrum disorders. Care is provided in a number of settings, including in residential care homes and through supported living.
- *Elderly Care.* Elderly care provides long-term, short-term and respite nursing care to high-dependency elderly individuals who are physically frail or suffering from dementia.
- *Care First.* Care First leverages our clinical knowledge to provide EAP to organizations. These support services are designed to help employees manage difficult issues in their professional or personal lives with services that include:
  - A call center for telephone counseling available 24-hours a day, seven days a week;
  - A national network of counselors available for live, face-to-face support;
  - Interactive health and wellness programs;
  - Debt management advice services; and
  - Management training.

**Sources of Revenue**

We receive payments from the following sources for services rendered in our facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by the Centers for Medicare and Medicaid Services ("CMS"); (iv) the NHS (including Local Authorities in the United Kingdom); and (v) individual patients and clients. Revenue is recorded in the period in which services are provided at established billing rates less contractual adjustments based on amounts reimbursable by Medicare or Medicaid under provisions of cost or prospective reimbursement formulas or amounts due from other third-party payors at contractually determined rates. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Revenue" for additional disclosure. Other information related to our revenues, income and other operating information is provided in our Consolidated Financial Statements.

**Regulation****U.S. Overview**

The healthcare industry is subject to numerous laws, regulations and rules including, among others, those related to government healthcare program participation requirements, various licensure and accreditation standards, reimbursement for patient services, health information privacy and security rules, and government healthcare program fraud and abuse provisions. Providers that are found to have violated any of these laws and regulations may be excluded from participating in government healthcare programs, subjected to loss or limitation of licenses to operate, subjected to significant fines or penalties and/or required to repay amounts received from the government for previously billed patient services. Management believes we are in substantial compliance with all applicable laws and regulations and is not aware of any material pending or threatened investigations involving allegations of wrongdoing.

**Licensing, Certification and Accreditation**

All of our facilities must comply with various federal, state and local licensing and certification regulations and undergo periodic inspection by licensing agencies to certify compliance with such regulations. The initial and continued licensure of our facilities and certification to participate in government healthcare programs depends upon many factors including various state licensure regulations relating to quality of care, environment of care, equipment, services, staff training, personnel and the existence of adequate policies, procedures and controls. Federal, state and local agencies survey our facilities on a regular basis to determine whether the facilities are in compliance with regulatory operating and health standards and conditions for participating in government healthcare programs.

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Most of our residential facilities maintain accreditation from private entities, such as The Joint Commission or the Commission on Accreditation of Rehabilitation Facilities ("CARF"). The Joint Commission and CARF are private organizations that have accreditation programs for a broad spectrum of healthcare facilities. The Joint Commission accredits a broad variety of healthcare organizations, including hospitals and behavioral health organizations. CARF accredits behavioral health organizations providing mental health and alcohol and drug use and addiction services, as well as opiate treatment programs, and many other types of programs. These accreditation programs are intended generally to improve the quality, safety, outcomes and value of healthcare services provided by accredited facilities. Accreditation is generally a requirement for participation in government and private healthcare payment programs. In addition, certain federal and state licensing agencies require that providers be accredited. Accreditation is typically granted for a specified period, typically ranging from one to three years, and renewals of accreditation generally require completion of a renewal application and an on-site renewal survey.

***Certificates of Need***

Many of the states in which we operate facilities have enacted certificate of need ("CON") laws that regulate the construction or expansion of certain healthcare facilities, certain capital expenditures or changes in services or bed capacity. Failure to obtain CON approval of certain activities can result in: our inability to complete an acquisition, expansion or replacement; the imposition of civil penalties; the inability to receive Medicare or Medicaid reimbursement; or the revocation of a facility's license, any of which could harm our business.

***Utilization Review***

Federal regulations require the treatment of patients in government healthcare programs be reviewed to confirm efficient utilization of facilities and services. The regulations require Quality Improvement Organizations ("QIOs") and other agencies to review the appropriateness of Medicare and Medicaid patient admissions and discharges, the quality of care provided, the validity of diagnosis related group classifications and the appropriateness of length of stay. The agencies may deny payment for services provided, assess fines, or recommend to the Department of Health and Human Services and other regulatory agencies that a provider that is in substantial non-compliance with the Medicare Conditions of Participation be excluded from participating in the Medicare program.

***Audits***

Our healthcare facilities are subject to federal, state and commercial payor audits to validate the accuracy of claims submitted to the government healthcare programs and commercial payors. If these audits identify overpayments, we could be required to make substantial repayments, subject to various appeal rights. Several of our facilities have undergone claims audits related to their receipt of payments during the last several years with no material overpayments identified. However, potential liability from future audits could ultimately exceed established reserves, and any excess could potentially be substantial. Further, Medicare and Medicaid regulations, as well as commercial payor contracts, also provide for withholding payments in certain circumstances, which could adversely affect our cash flow.

***The Anti-Kickback Statute and Stark Law***

A provision of the Social Security Act known as the Anti-Kickback Statute prohibits healthcare providers and others from directly or indirectly soliciting, receiving, offering or paying money or other remuneration to other individuals and entities in return for using, referring, ordering, recommending or arranging for such referrals or orders of services or other items paid for by a government healthcare program. The Anti-Kickback Statute may be found to have been violated if only one purpose of the payment or remuneration is to induce referrals. A provider is not required to have actual knowledge or specific intent to commit a violation of the Anti-Kickback Statute to be found guilty of violating the law.

The Office of the Inspector General of the Department of Health and Human Services has issued regulations that provide "safe harbors" from federal Anti-Kickback Statute liability for various activities. The fact that conduct or a business arrangement does not fall within a safe harbor or exception does not automatically render the conduct or business arrangement illegal under the Anti-Kickback Statute. However, conduct and business arrangements falling outside the safe harbors may lead to increased scrutiny by government enforcement authorities.

Although management believes that our arrangements with physicians and other referral sources comply with current law and available interpretations, there can be no assurance that all arrangements comply with an available safe harbor or that regulatory authorities enforcing these laws will determine these financial arrangements do not violate the Anti-Kickback Statute or other applicable laws.

These laws and regulations are extremely complex and, in many cases, we do not have the benefit of regulatory or judicial interpretation. It is possible that different interpretations or enforcement of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our arrangements relating to facilities, equipment, personnel, services, capital expenditure programs and operating expenses. A determination that we have violated one or more of these laws, or the public announcement that we are being investigated for possible violations of one or more of these laws, could have a material adverse effect on our business, financial condition or results of operations. In addition, we cannot predict whether other federal or state legislation or regulations will be adopted, what form such legislation or regulations may take or what their impact on us may be.

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If we are deemed to have failed to comply with the Anti-Kickback Statute or other applicable laws and regulations, we could be subjected to liabilities, including criminal penalties, civil penalties, and exclusion of one or more facilities from participation in the government healthcare programs. The imposition of such penalties could have a material adverse effect on our business, financial condition or results of operations.

The Social Security Act also includes a provision regarding physician self-referrals, commonly known as the "Stark Law." This law prohibits physicians from referring Medicare patients to healthcare entities in which they or any of their immediate family members have an ownership or other financial interest for the furnishing of any "designated health services." A violation of the Stark Law may result in a denial of payment, require refunds to the Medicare program, civil monetary penalties of up to \$15,000 for each violation, civil monetary penalties of up to \$100,000 for circumvention schemes, civil monetary penalties of up to \$10,000 for each day that entity fails to report required information, exclusion from the government healthcare programs, and additionally could result in penalties for false claims. There are ownership and compensation arrangement exceptions for many customary financial arrangements between physicians and facilities, including the employment exception, personal services exception, lease exception and certain recruitment exceptions. Our financial arrangements with physicians are structured to comply with the statutory exceptions to the Stark Law and related regulations. However, future Stark Law regulations may alter the scope or interpretation of this law in a manner different from the manner in which we have interpreted them. We cannot predict the effect such future regulations will have on us.

***Federal False Claims Act and Other Fraud and Abuse Provisions***

The Social Security Act also imposes criminal and civil penalties for submitting false claims to the government healthcare programs. False claims include, but are not limited to, billing for services not rendered, billing for services without adequate documentation, misrepresenting the services rendered in order to obtain higher reimbursement, knowingly retaining overpayments and committing cost report fraud. Like the Anti-Kickback Statute, these provisions are very broad.

Violations of the federal False Claims Act are punishable by fines of up to three times the actual damages sustained by the government, plus mandatory civil penalties. There are many potential bases for liability under the False Claims Act. The Fraud Enforcement and Recovery Act of 2009 has expanded the number of actions for which liability may attach under the False Claims Act, eliminating requirements that false claims be presented to federal officials or directly involve federal funds. The Fraud Enforcement and Recovery Act also clarifies that a false claim violation occurs upon the knowing retention of overpayments. In addition, recent changes to the Anti-Kickback Statute have made violations of that law punishable under the civil False Claims Act.

A current trend affecting the healthcare industry is the increased use of the False Claims Act, and, in particular, actions being brought by individuals on the government's behalf under the False Claims Act's qui tam, or whistleblower, provisions. Whistleblower provisions allow private individuals to bring actions on behalf of the government by alleging that the defendant has defrauded the federal government. Further, a number of states have adopted their own false claims provisions as well as their own whistleblower provisions whereby a private party may file a civil lawsuit on behalf of the state.

Further, the Health Insurance Portability and Accountability Act ("HIPAA") broadened the scope of the fraud and abuse laws by adding several criminal provisions for healthcare fraud offenses that apply to all health benefit programs, whether or not payments under such programs are paid pursuant to federal programs. HIPAA also introduced enforcement mechanisms to prevent fraud and abuse under Medicare. There are civil penalties for prohibited conduct, including, but not limited to, billing for medically unnecessary products or services.

***HIPAA Administrative Simplification and Privacy and Security Requirements***

The administrative simplification provisions of HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH"), require the use of uniform electronic data transmission standards for healthcare claims and payment transactions submitted or received electronically. These provisions are intended to encourage electronic commerce in the healthcare industry. HIPAA also established federal rules protecting the privacy and security of individually identifiable patient health information ("PHI"). The privacy and security regulations control the use and disclosure of PHI and the rights of patients to understand and control how such PHI is used and disclosed. Violations of HIPAA can result in both criminal and civil fines and penalties.

The HIPAA security regulations require healthcare providers to implement administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of PHI. HITECH has strengthened certain HIPAA rules regarding the use and disclosure of PHI, extended certain HIPAA provisions to business associates, and created security breach notification requirements including notifications to the individuals affected by the breach, the Department of Health and Human Services, and in certain cases, the media. HITECH has also increased maximum penalties for violations of HIPAA privacy rules. Management believes that we have been in material compliance with the HIPAA regulations and have developed our policies and procedures to ensure ongoing compliance.

**Table of Contents*****The Emergency Medical Treatment & Labor Act***

The Emergency Medical Treatment & Labor Act ("EMTALA") is intended to ensure public access to emergency services regardless of ability to pay. Section 1867 of the Social Security Act imposes specific obligations on Medicare-participating hospitals that offer emergency services to provide a medical screening examination when a request is made for examination or treatment for an emergency medical condition regardless of an individual's ability to pay. Hospitals are then required to provide stabilizing treatment for patients with emergency medical conditions. If a hospital is unable to stabilize a patient within its capability, or if the patient requests, an appropriate transfer must be implemented. EMTALA imposes additional obligations on hospitals with specialized capabilities, such as ours, to accept the transfer of patients in need of such specialized capabilities if those patients present in the emergency room of a hospital that does not possess the specialized capabilities. CMS is currently considering rules that would require our hospitals to accept the transfer of patients in need of psychiatric services even if the patient is already admitted to the transferring hospital.

***Mental Health Parity Legislation***

The MHPAEA was signed into law in October 2008 and requires health insurance plans that offer mental health and addiction coverage to provide that coverage on par with financial and treatment coverage offered for other illnesses. The MHPAEA has some limitations because health plans that do not already cover mental health treatments are not required to do so, and health plans are not required to provide coverage for every mental health condition published in the Diagnostic and Statistical Manual of Mental Disorders by the American Psychiatric Association. The MHPAEA also contains a cost exemption which operates to exempt a group health plan from the MHPAEA's requirements if compliance with the MHPAEA becomes too costly.

***Patient Protection and Affordable Care Act***

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (the "PPACA"). The Healthcare and Education Reconciliation Act of 2010 (the "Reconciliation Act"), which contains a number of amendments to the PPACA, was signed into law on March 30, 2010. Two primary goals of the PPACA, combined with the Reconciliation Act (collectively referred to as the "Health Reform Legislation"), are to provide for increased access to coverage for healthcare and to reduce healthcare-related expenses.

On June 28, 2012, the United States Supreme Court upheld the constitutionality of the requirement in PPACA that individuals maintain health insurance or pay a penalty under Congress's taxing power. The Supreme Court upheld the PPACA provision expanding Medicaid eligibility to new populations as constitutional, but only so long as the expansion of the Medicaid program is optional for the states. States that choose not to expand their Medicaid programs to newly eligible populations in PPACA can only lose the new federal Medicaid funding in PPACA but not their eligibility for existing federal Medicaid matching payments.

The Health Reform Legislation expands coverage of uninsured individuals and provides for significant reductions in the growth of Medicare program payments, material decreases in Medicare and Medicaid disproportionate share hospital payments, and the establishment of programs where reimbursement is tied in part to patient outcomes. Based on Congressional Budget Office estimates, the Health Reform Legislation, as enacted, is expected to expand health insurance coverage to approximately 32 to 34 million additional individuals through a combination of public program expansion and private sector health insurance reforms.

Some of the most significant changes will expand the categories of individuals eligible for Medicaid coverage and permit individuals with relatively higher incomes to qualify. The federal government reimburses the majority of a state's Medicaid expenses, and it conditions its payment on the state meeting certain requirements. The federal government currently requires that states provide coverage for only limited categories of low-income adults under 65 years old (e.g., women who are pregnant, and the blind or disabled). In addition, the income level required for individuals and families to qualify for Medicaid varies widely from state to state. While the Health Reform Legislation will greatly expand the number of adults who are eligible for Medicaid, it may not impact our business as Medicaid generally does not reimburse for care provided to adults treated in freestanding behavioral health facilities.

***U.K. Overview***

The regulatory environment applicable to facilities in the United Kingdom is complex and multifaceted. The regulatory regime is made up of multiple statutes, regulations and minimum standards that are subject to continuous change. The laws and regulations applicable to the United Kingdom facilities include, without limitation, the Mental Capacity Act of 2005, Safeguarding Vulnerable Groups Act of 2006, Mental Health Act of 2007, Health and Social Care Act of 2008 and Corporate Manslaughter and Corporate Homicide Act of 2008. These laws and regulations are predominantly protective in nature and share the same general underlying



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purpose to protect vulnerable persons from exploitation or harm. The regulatory requirements relevant to our facilities in the United Kingdom cover our operations from the initial establishments of new facilities, which are subject to registration and licensing requirements, to the recruitment and appointment of staff, occupational health and safety, duty of care to service users, clinical and educational standards, conduct of our professional and support staff and other areas.

***Mental Capacity Act of 2005.*** The Mental Capacity Act of 2005 establishes the process for determining whether a person lacks mental capacity at a particular time and also sets out who can make decisions in those circumstances and how they should go about this. The Act sets out when liability may arise for actions in connection with the care or treatment of persons who lack capacity to consent to such actions.

***Safeguarding Vulnerable Groups Act of 2006.*** The Safeguarding Vulnerable Groups Act of 2006 created the Independent Safeguarding Authority ("ISA"). In December 2012, the ISA merged with the Criminal Records Bureau to form the Discharge and Barring Service ("DBS") and is required to establish and maintain lists of persons barred from working with children and adults. It is a criminal offense for a barred person to seek to work, or work in, activities from which they are barred. It is also generally a criminal offense for an employer to allow a barred person, or person who is not appropriately registered, to work in any regulated activity.

***The Mental Health Act of 2007.*** The Mental Health Act of 2007 regulates the manner in which an individual can be committed or detained against his or her will. The main purpose of the legislation is to ensure that people with serious mental disorders which threaten their health or safety or the safety of the public can be treated irrespective of their consent where it is necessary to prevent them from harming themselves or others. The Act places the burden on the entity detaining a person to prove that the entity has the right to hold the detainee. This places a substantial regulatory burden on service providers to ensure compliance with the law.

***The Health and Social Care Act of 2008.*** The Health and Social Care Act of 2008 ("HSCA"), as amended by the Care Act 2014, established the Care Quality Commission ("CQC") as the registration and regulatory body for health and adult social care in England. Under the HSCA, service providers carrying out "regulated activities" must be registered with the CQC for each separate regulated activity provided. Where the service provider is a company, each regulated activity/location must also have an individual registered as the registered manager. Registration depends both on an assessment of the fitness of the registered provider and also the individual registered manager. Regulated activities include the provision of residential accommodation together with nursing or personal care and the provision of treatment for a disease, disorder or injury by or under the supervision of a social worker or a multidisciplinary team which includes a social worker where the treatment is for a mental disorder.

***The Care Act 2014.*** The Care Act 2014 came into force on April 1, 2015 along with a range of supporting regulations and a single set of statutory guidance. The Care Act 2014 requires Local Authorities to set personal budgets for individuals that are appropriate to meeting those individuals' assessed eligible care and support needs. The Care Act 2014 also imposes new statutory duties upon Local Authorities to ensure the supply of diverse, good quality, local services, including a duty to plan for future demand and to ensure that services are high quality and sustainable.

The regulated activities regulations and the registration regulations issued pursuant to the HSCA place legally binding obligations on health and social care providers. Breach of certain provisions of the HSCA or the regulations is a criminal offense. In addition, a breach may lead to the CQC taking action to suspend, cancel or vary the conditions of registration of a service provider or impose a substantial fine.

Inspections by regulators in the United Kingdom can be carried out on both an announced and an unannounced basis depending on the specific regulatory provisions relating to the different services provided and also depending upon whether the inspection is routine or as a result of specific information regarding the service that has been provided to the regulator. Generally, however, a majority of inspections tend to be unannounced. A failure to comply with laws and regulations, the receipt of a poor inspection report rating or a lower rating, or the receipt of a negative report that leads to a determination of regulatory non-compliance or a failure to cure any defect noted in an inspection report may result in reputational damage, fines, the revocation or suspension of the registration of any facility or a decrease in, or cessation of, the services provided at any given location.

***Corporate Manslaughter and Corporate Homicide Act of 2007.*** The Corporate Manslaughter and Corporate Homicide Act of 2007 provides liability if the way in which a provider's activities are managed or organized causes a person's death and amounts to a gross breach of a relevant duty of care owed to the deceased person.

**Regulatory and Enforcement Bodies**

The primary healthcare regulatory enforcement bodies in the United Kingdom are Monitor, the CQC, HIW, CCSIW, HIS, SCSWIS and RQIA. In addition, OFSTED, Estyn, Education Scotland and other regulatory bodies regulate and inspect education

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services in England, Wales and Scotland, as applicable. These enforcement bodies control and administer the registration, inspection and complaints procedures set out under the applicable laws and regulations. The enforcement bodies have the power to terminate a facility's registration, refuse to register a facility, impose admissions holds, or impose significant fines if a service provider fails to meet the key minimum standards and requirements prescribed under the various laws and regulations. See "Risk Factors—If we fail to comply with extensive laws and government regulations, we could suffer penalties or be required to make significant changes to our operations."

*Monitor.* Monitor is the sector regulator for healthcare, tasked with regulating all providers of nonexempt NHS funded services in England. Monitor is the general economic and competition regulator. It fulfills this role through licensing health care providers and, together with the NHS England, sets the national price tariff for NHS services. Monitor's role includes regulating clinical commissioning groups, community services and secondary care services, protecting and promoting patients' interests, tackling abuses and dealing with unjustifiable restrictions on competition. Monitor must exercise its functions with a view to preventing anticompetitive behavior in the provision of health care services.

*The CQC.* The CQC is the independent regulator for health and adult social care in England. The CQC is distinct from Monitor in that it focuses on quality and ensuring the maintenance of standards in health and social care practices. The CQC licenses NHS and adult social care service providers to enable it to keep a check on safety and quality standards. The CQC also carries out facility inspections. Care homes for young adults (including specialist college accommodation) are registered and inspected by the CQC.

*HIW.* HIW is the independent inspectorate and regulator of all health care in Wales. Certain independent healthcare services are required to register with HIW. HIW also inspects NHS and independent healthcare organizations in Wales to ensure compliance with its and the NHS's standards, policies, guidance and regulations. The HIW Review Service for Mental Health monitors the use of the Mental Health Act 1983 to ensure that it is being used properly on behalf of Welsh Ministers.

*CCSIW.* Social care and social services in Wales are regulated by the Care and Social Services Inspectorate Wales ("CCSIW"). CCSIW carries out unannounced inspections and measure against regulations. Children's homes in Wales are inspected by CCSIW.

*HIS.* Healthcare Improvement Scotland ("HIS") is the independent regulator for healthcare services in Scotland. HIS inspects healthcare providers in Scotland to ensure compliance with its standards, policies, guidance and regulations.

*SCSWIS.* Care services in Scotland are regulated by the Care Inspectorate Scotland (also known as Social Care and Social Work Improvement Scotland) ("SCSWIS") and all care services in Scotland must be registered with them. As well as registration, SCSWIS inspects services against the National Care Standards and they can take action to force services to improve and can close services if necessary. Independent schools with boarding facilities must register their boarding provision with SCSWIS for the regulation of care as a school care accommodation service.

*RQIA.* In Northern Ireland, the Regulation and Quality Improvement Authority ("RQIA") is Northern Ireland's independent health and social care regulator. RQIA is responsible for registering, inspecting and encouraging improvement in a range of health and social care services in accordance with the Health and Personal Social Services (Quality, Improvement and Regulation) (Northern Ireland) Order 2003 and its supporting regulations. RQIA inspections are based on certain minimum care standards.

*OFSTED.* The Office for Standards in Education, Children's Services and Skills ("OFSTED") regulates and inspects services in England that care for children and young people, and services providing education and skills for learners of all ages. OFSTED carries out routine day school and further education college inspections to ensure compliance with inspection frameworks.

*Estyn.* In Wales, the Office of Her Majesty's Inspectorate for Education and Training ("Estyn") inspects quality standards in education and training for children's homes, residential schools and colleges.

*Education Scotland.* In Scotland, the education provision for independent schools with boarding facilities is regulated by Education Scotland.

**Risk Management and Insurance**

The healthcare industry in general continues to experience an increase in the frequency and severity of litigation and claims. As is typical in the healthcare industry, we could be subject to claims that our services have resulted in injury to our patients or clients or other adverse effects. In addition, resident, visitor and employee injuries could also subject us to the risk of litigation. While management believes that quality care is provided to patients and clients in our facilities and that we materially comply with all applicable regulatory requirements, an adverse determination in a legal proceeding or government investigation could have a material adverse effect on our business, financial condition or results of operations.

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Our statutory workers' compensation program is fully insured with a \$500,000 deductible per accident. Our operations have professional and general liability insurance for claims in excess of a \$1,000,000 self-insured retention with an insured excess limit of \$50 million.

***Environmental Matters***

We are subject to various federal, state and local environmental laws that: (i) regulate certain activities and operations that may have environmental or health and safety effects, such as the handling, storage, transportation, treatment and disposal of medical waste products generated at our facilities, the identification and warning of the presence of asbestos-containing materials in buildings, as well as the removal of such materials, the presence of other hazardous substances in the indoor environment, and protection of the environment and natural resources in connection with the development or construction of our facilities; (ii) impose liability for costs of cleaning up, and damages to natural resources from, past spills, waste disposals on and off-site, or other releases of hazardous materials or regulated substances; and (iii) regulate workplace safety. Some of our facilities generate infectious or other hazardous medical waste due to the illness or physical condition of our patients. The management of infectious medical waste is subject to regulation under various federal, state and local environmental laws, which establish management requirements for such waste. These requirements include record-keeping, notice and reporting obligations. Each of our facilities has an agreement with a waste management company for the disposal of medical waste. The use of such companies, however, does not completely protect us from violations of medical waste laws or from related third-party claims for clean-up costs.

From time to time, our operations have resulted in, or may result in, non-compliance with, or liability pursuant to, environmental or health and safety laws or regulations. Management believes that our operations are generally in compliance with environmental and health and safety regulatory requirements or that any non-compliance will not result in a material liability or cost to achieve compliance. Historically, the costs of achieving and maintaining compliance with environmental laws and regulations at our facilities have not been material. However, we cannot assure you that future costs and expenses required for us to comply with any new or changes in existing environmental and health and safety laws and regulations or new or discovered environmental conditions will not have a material adverse effect on our business, financial condition or results of operations.

We have not been notified of and management is otherwise currently not aware of any contamination at our currently or formerly operated facilities for which we could be liable under environmental laws or regulations for the investigation and remediation of such contamination and we currently are not undertaking any remediation or investigation activities in connection with any contamination conditions. There may, however, be environmental conditions currently unknown to us relating to our prior, existing or future sites or operations or those of predecessor companies whose liabilities we may have assumed or acquired which could have a material adverse effect on our business.

New laws, regulations or policies or changes in existing laws, regulations or policies or their enforcement, future spills or accidents or the discovery of currently unknown conditions or non-compliances may give rise to investigation and remediation liabilities, compliance costs, fines and penalties, or liability and claims for alleged personal injury or property damage due to substances or materials used in our operations, any of which may have a material adverse effect on our business, financial condition or results of operations.

***Competition***

The healthcare industry is highly competitive. Our principal competitors include other behavioral healthcare service companies, including UHS, and the NHS in the U.K. We also compete against hospitals and general healthcare facilities that provide mental health services. An important part of our business strategy is to continue making targeted acquisitions of other behavioral health facilities. However, reduced capacity, the passage of mental health parity legislation and increased demand for mental health services are likely to attract other potential buyers, including diversified healthcare companies and possibly other pure-play behavioral healthcare companies.

The mental health services sector in the United Kingdom comprises hospitals or establishments that provide psychiatric treatment for illness or mental disorder at all security and treatment levels. We operate in several highly competitive markets in the United Kingdom with a variety of for-profit, the NHS and other not-for-profit groups in each of our markets. Most competition is regional or local, based on relevant catchment areas and procurement initiatives. The NHS is often the dominant provider, although the trend has been towards increased outsourcing, whereby the NHS is both a provider and customer of mental healthcare services. The NHS (including Local Authorities) accounts for approximately 70% of the total mental health hospital beds providing care in the United Kingdom, with independent providers accounting for the remaining approximately 30% of beds.

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In addition to the competition we face for acquisitions, we must also compete for patients. Patients are referred to our behavioral healthcare facilities through a number of different sources, including healthcare practitioners, public programs, other treatment facilities, managed care organizations, unions, emergency departments, judicial officials, social workers, police departments and word of mouth from previously treated patients and their families, among others. These referral sources may instead refer patients to hospitals that are able to provide a full suite of medical services or to other behavioral healthcare centers.

**Employees**

As of December 31, 2015, we had approximately 26,400 employees, of which approximately 17,800 were employed full-time. At the acquisition date, Priory had over 16,000 employees. As of December 31, 2015, labor unions represented approximately 472 of our employees, at five of our U.S. facilities through eight collective bargaining agreements. Organizing activities by labor unions and certain potential changes in federal labor laws and regulations could increase the likelihood of employee unionization in the future. The Royal College of Nursing is the trade union for all full and part-time nurses, nursing cadets and healthcare assistants in the U.K.

Typically, our inpatient facilities are staffed by a chief executive officer, medical director, director of nursing, chief financial officer, clinical director and director of performance improvement. Psychiatrists and other physicians working in our facilities are licensed medical professionals who are generally not employed by us and work in our facilities as independent contractors or medical staff members.

**Seasonality of Demand for Services**

Our residential recovery and other inpatient facilities typically experience lower patient volumes and revenue during the holidays, and our child and adolescent facilities typically experience lower patient volumes and revenue during the summer months, holidays and other periods when school is out of session.

**Pro Forma Financial Information**

This report contains certain unaudited information, including revenue and operating statistics based on revenue, that is presented on a pro forma basis assuming that acquisitions we completed during 2014 and 2015 and the acquisition of Priory occurred as of an earlier date. The unaudited pro forma information gives effect to each acquisition as if it occurred on January 1, 2014. Management believes that the pro forma financial information is helpful given the rapid growth of Acadia through acquisitions. The unaudited pro forma financial information has been prepared using the acquisition method of accounting for business combinations under Generally Accepted Accounting Principles ("GAAP"). The unaudited pro forma financial information is for illustrative purposes only and does not purport to represent what our financial condition or results of operations actually would have been had the events in fact occurred on the assumed date or to project our financial condition or results of operations for any future date or future period. The unaudited pro forma financial information should be read in conjunction with the consolidated financial statements and notes thereto elsewhere in this report and the financial statements of Acadia and the acquired companies in other reports that we have filed with the SEC.

**Available Information**

Our Internet website address is [www.acadiahealthcare.com](http://www.acadiahealthcare.com). We make available our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports free of charge on our website on the Investors webpage under the caption "SEC Filings" as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The public may read and copy materials filed with the SEC at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D. C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file or furnish information electronically with the SEC at [www.sec.gov](http://www.sec.gov). Our website and the information contained therein or linked thereto are not intended to be incorporated into this Annual Report on Form 10-K.



**Table of Contents****Item 1A. Risk Factors**

Any of the following risks could materially and adversely affect our business, financial condition or results of operations. These risks should be carefully considered before making an investment decision regarding us. The risks and uncertainties described below are not the only ones we face and there may be additional risks that we are not presently aware of or that we currently consider not likely to have a significant impact. If any of the following risks actually occurred, our business, financial condition and operating results could suffer, and the trading price of our common stock could decline.

***Review of the acquisition of Priory by the Competition and Markets Authority ("CMA") may delay our integration of Priory or require us to divest part of Priory's or our respective businesses. If we are unable to successfully integrate Priory into our business following completion of competition review, or if divestments of Priory's or our respective businesses are required, our business, financial condition and results of operations may be negatively impacted.***

We cannot determine when the CMA will complete its review of the acquisition of Priory and, until such review is complete, we will not be allowed to integrate Priory's business. Further, we may be required by the CMA to divest part of Priory's or our respective businesses. Our business, financial condition and results of operations may suffer, and our expectations for the acquisition of Priory may not be met, if we are not able to integrate Priory's business for an extended period as a result of an ongoing CMA review or if we are required to divest part of Priory's or our respective businesses.

Upon completion of the CMA review, we intend to integrate Priory's business into our current business. Successful integration will depend on our ability to effect any required changes in operations or personnel which may entail unforeseen liabilities. The integration of Priory may expose us to certain risks, including the following: difficulty in integrating Priory in a cost-effective manner; difficulty or delay in the establishment of effective management information and financial control systems; unforeseen legal, regulatory, contractual, employment or other issues arising out of the combination; combining corporate cultures; maintaining employee morale and retaining key employees; potential disruptions to our on-going business caused by our senior management's focus on integrating Priory; and performance of the combined assets not meeting our expectations or plans. A failure to properly integrate Priory could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects.

***Fluctuations in our operating results, quarter to quarter earnings and other factors, including incidents involving our patients and negative media coverage, may result in significant decreases in the price of our common stock.***

The stock markets experience volatility that is often unrelated to operating performance. These broad market fluctuations may adversely affect the trading price of our common stock and, as a result, there may be significant volatility in the market price of our common stock. If we are unable to operate our facilities as profitably as we have in the past or as our investors expect us to in the future, the market price of our common stock will likely decline when it becomes apparent that the market expectations may not be realized. In addition to our operating results, many economic and seasonal factors outside of our control could have an adverse effect on the price of our common stock and increase fluctuations in our quarterly earnings. These factors include certain of the risks discussed herein, demographic changes, operating results of other healthcare companies, changes in our financial estimates or recommendations of securities analysts, speculation in the press or investment community, the possible effects of war, terrorist and other hostilities, adverse weather conditions, the level of seasonal illnesses, managed care contract negotiations and terminations, changes in general conditions in the economy or the financial markets or other developments affecting the healthcare industry.

***Our revenues and results of operations are significantly affected by payments received from the government and third-party payors.***

A significant portion of our revenues is derived from government healthcare programs, principally Medicare and Medicaid. On a pro forma basis for the year ended December 31, 2015, giving effect to the 2014 and 2015 Acquisitions and the Priory acquisition, we would have received approximately 31% of our revenue from the Medicare and Medicaid programs.

Government payors, such as Medicaid, generally reimburse us on a fee-for-service basis based on predetermined reimbursement rate schedules. As a result, we are limited in the amount we can record as revenue for our services from these government programs, and if we have a cost increase, we typically will not be able to recover this increase. In addition, the federal government and many state governments, are operating under significant budgetary pressures, and they may seek to reduce payments under their Medicaid programs for services such as those we provide. Government payors also tend to pay on a slower schedule. In addition to limiting the amounts they will pay for the services we provide their members, government payors may, among other things, impose prior authorization and concurrent utilization review programs that may further limit the services for which they will pay and shift patients to lower levels of care and reimbursement. Therefore, if governmental entities reduce the amounts they will pay for our services, or if they elect not to continue paying for such services altogether, our business, financial condition or results of operations could be adversely affected. In addition, if governmental entities slow their payment cycles further, our cash flow from operations could be negatively affected.

June 27, 2016

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Commercial payors such as managed care organizations, private health insurance programs and labor unions generally reimburse us for the services rendered to insured patients based upon contractually determined rates. These commercial payors are under significant pressure to control healthcare costs. In addition to limiting the amounts they will pay for the services we provide their members, commercial payors may, among other things, impose prior authorization and concurrent utilization review programs that may further limit the services for which they will pay and shift patients to lower levels of care and reimbursement. These actions may reduce the amount of revenue we derive from commercial payors.

Changes in these government programs in recent years have resulted in limitations on reimbursement and, in some cases, reduced levels of reimbursement for healthcare services. Payments from federal and state government healthcare programs are subject to statutory and regulatory changes, administrative rulings, interpretations and determinations, requirements for utilization review, and federal and state funding restrictions, all of which could materially increase or decrease program payments, as well as affect the cost of providing service to patients and the timing of payments to facilities. We are unable to predict the effect of recent and future policy changes on our operations. In addition, since most states operate with balanced budgets and since the Medicaid program is often a state's largest program, some states can be expected to enact or consider enacting legislation formulated to reduce their Medicaid expenditures. Furthermore, the recent economic downturn has increased the budgetary pressures on the federal government and many state governments, which may negatively affect the availability of taxpayer funds for Medicare and Medicaid programs. If the rates paid or the scope of services covered by government payors are reduced, there could be a material adverse effect on our business, financial condition and results of operations.

In addition to changes in government reimbursement programs, our ability to negotiate favorable contracts with private payors, including managed care providers, significantly affects the financial condition and operating results of our facilities in the United States. Management expects third-party payors to aggressively manage reimbursement levels and cost controls. Reductions in reimbursement amounts received from third-party payors could have a material adverse effect on our business, financial condition and results of operations.

***Our substantial debt could adversely affect our financial health and prevent us from fulfilling our obligations under our financing arrangements.***

As of December 31, 2015, we had approximately \$2.2 billion of total debt (net of debt issuance costs, discounts and premiums of \$35.4 million), which included approximately \$1.2 billion of debt under our Amended and Restated Senior Credit Facility, \$150.0 million of debt under our 6.125% Senior Notes, \$300.0 million of debt under our 5.125% Senior Notes, \$650.0 million of debt under our 5.625% Senior Notes and \$22.4 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5% (the "9.0% and 9.5% Revenue Bonds"). To finance our acquisition of Priory in February 2016, we also borrowed \$955.0 million under the New TLB Facility, increased our TLA Facility by \$135.0 million and issued \$390.0 million of 6.500% Senior Notes. See "Item 1. Business—Financing Transactions" for additional details regarding our outstanding indebtedness.

Our substantial debt could have important consequences to our business. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- make it more difficult for us to satisfy our other financial obligations;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt (including scheduled repayments on our outstanding term loan borrowings under the Amended and Restated Senior Credit Facility), thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- expose us to interest rate fluctuations because the interest on the Amended and Restated Senior Credit Facility is imposed at variable rates;
- make it more difficult for us to satisfy our obligations to our lenders, resulting in possible defaults on and acceleration of such debt;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;

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- limit our ability to borrow additional funds; and
- limit our ability to pay dividends, redeem stock or make other distributions.

In addition, the terms of our financing arrangements contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts, including the Amended and Restated Senior Credit Facility and the Senior Notes.

***Servicing our debt will require a significant amount of cash. Our ability to generate sufficient cash to service our debt depends on many factors beyond our control.***

Our ability to make payments on and to refinance our debt, to fund planned capital expenditures and to maintain sufficient working capital will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the Amended and Restated Senior Credit Facility or from other sources in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. If our cash flow and capital resources are insufficient to allow us to make scheduled payments on our debt, we may need to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance all or a portion of our debt on or before the maturity thereof, any of which could have a material adverse effect on our business, financial condition or results of operations. We cannot assure you that we will be able to refinance any of our debt on commercially reasonable terms or at all, or that the terms of that debt will allow any of the above alternative measures or that these measures would satisfy our scheduled debt service obligations. If we are unable to generate sufficient cash flow to repay or refinance our debt on favorable terms, it could significantly adversely affect our financial condition and the value of our outstanding debt. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

***We are subject to a number of restrictive covenants, which may restrict our business and financing activities.***

Our financing arrangements impose, and the terms of any future debt may impose, operating and other restrictions on us. Such restrictions affect, and in many respects limit or prohibit, among other things, our and our subsidiaries' ability to:

- incur or guarantee additional debt and issue certain preferred stock;
- pay dividends on our common stock or redeem, repurchase or retire our equity interests or subordinated debt;
- transfer or sell our assets;
- make certain payments or investments;
- make capital expenditures;
- create certain liens on assets;
- create restrictions on the ability of our subsidiaries to pay dividends or make other payments to us;
- engage in certain transactions with our affiliates; and
- merge or consolidate with other companies.

The Amended and Restated Senior Credit Facility also requires us to meet certain financial ratios, including a fixed charge coverage ratio and a consolidated leverage ratio. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Amended and Restated Senior Credit Facility"

The restrictions may prevent us from taking actions that management believes would be in the best interests of our business, and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. We also may incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. Our ability to comply with these covenants in future periods will largely depend on the pricing of our products and services, our success at implementing cost reduction initiatives and our ability to successfully implement our overall business strategy. We cannot assure you that we will be granted waivers or amendments to our financing arrangements if for any reason we are unable to comply with our financial covenants. The breach of any of these covenants and restrictions could result in a default under the indentures governing the Senior Notes or under the Amended and Restated Senior Credit Facility, which could result in an acceleration of our debt.

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***Despite our current debt level, we may incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial debt.***

We may incur substantial additional debt, including additional notes and other debt, in the future. Although the indentures governing our outstanding Senior Notes and our Amended and Restated Senior Credit Facility contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of debt that could be incurred in compliance with these restrictions could be substantial. If new debt is added to our existing debt levels, the related risks that we now face would intensify and we may not be able to meet all our debt obligations.

***If we default on our obligations to pay our debt, we may not be able to make payments on our financing arrangements.***

Any default under the agreements governing our debt, including a default under the Amended and Restated Senior Credit Facility or the indentures governing our Senior Notes, and the remedies sought by the holders of such debt, could adversely affect our ability to pay the principal, premium, if any, and interest on the Senior Notes and substantially decrease the market value of the Senior Notes. If we are unable to generate sufficient cash flows and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our debt, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our debt (including the Amended and Restated Senior Credit Facility and the indentures governing the Senior Notes), we would be in default under the terms of the agreements governing such debt. In the event of such default, the holders of such debt could elect to declare all the funds borrowed thereunder to be due and payable, the lenders under the Amended and Restated Senior Credit Facility could elect to terminate their commitments or cease making further loans and institute foreclosure proceedings against our assets, or we could be forced to apply all available cash flows to repay such debt, and, in any such case, we could ultimately be forced into bankruptcy or liquidation. Because the indentures governing the Senior Notes and the agreement governing the Amended and Restated Senior Credit Facility have customary cross-default provisions, if the debt under the Senior Notes or the Amended and Restated Senior Credit Facility is accelerated, we may be unable to repay or refinance the amounts due.

***An incident involving one or more of our patients or the failure by one or more of our facilities to provide appropriate care could result in increased regulatory burdens, governmental investigations, negative publicity and adversely affect the trading price of our securities.***

Because the patients we treat suffer from severe mental health and chemical dependency disorders, patient incidents, including deaths, assaults and elopements, occur from time to time. If one or more of our facilities experiences an adverse patient incident or is found to have failed to provide appropriate patient care, an admissions hold, loss of accreditation, license revocation or other adverse regulatory action could be taken against us. Any such patient incident or adverse regulatory action could result in governmental investigations, judgments or fines and have a material adverse effect on our business, financial condition and results of operations. In addition, we have been and could become the subject of negative publicity or unfavorable media attention, whether warranted or unwarranted, that could have a significant, adverse effect on the trading price of our securities or adversely impact our reputation and how our referral sources and payors view us.

***Expanding our international operations poses additional risks to our business.***

Prior to the acquisition of Partnerships in Care, we were engaged in business activities in the United States and Puerto Rico. The acquisition of Partnerships in Care marked our first entry into a foreign market, and we expanded our operations in the United Kingdom as a result of our acquisition of Priory. Our business or financial performance may be adversely affected due to the risks of operating internationally, including but not limited to the following: economic and political instability, failure to comply with foreign laws and regulations and adverse changes in the health care policy of the United Kingdom (including decreases in funding for the services provided by Partnerships in Care and Priory), adverse changes in law and regulations affecting our operations in the United Kingdom, difficulties and costs of staffing and managing our new operations in the United Kingdom. If any of these events were to materialize, they could lead to disruption of our business, significant expenditures and/or damages to our reputation, which could have a material adverse effect on our results of operations, financial condition or prospects.

As a company based outside of the United Kingdom, we will need to take certain actions to be more easily accepted in the United Kingdom. For example, we may need to engage in a public relations campaign to emphasize service quality and company philosophy, preserve local management continuity and business practices and be transparent in our dealings with local governments and taxing authorities. Such efforts will require significant time and effort on the part of our management team. Our results of operation could suffer if these efforts are not successful.



**Table of Contents*****Our acquisition strategy exposes us to a variety of operational and financial risks.***

A principal element of our business strategy is to grow by acquiring other companies and assets in the behavioral healthcare industry. Growth, especially rapid growth, through acquisitions exposes us to a variety of operational and financial risks. We summarize the most significant of these risks below.

***Integration risks***

We must integrate our acquisitions with our existing operations. This process includes the integration of the various components of our business and of the businesses we have acquired or may acquire in the future, including the following:

- additional psychiatrists, other physicians and employees who are not familiar with our operations;
- patients who may elect to switch to another behavioral healthcare provider;
- regulatory compliance programs; and
- disparate operating, information and record keeping systems and technology platforms.

Integrating a new facility could be expensive and time consuming and could disrupt our ongoing business, negatively affect cash flow and distract management and other key personnel from day-to-day operations.

We may not be able to successfully combine the operations of recently acquired facilities with our operations, and even if such integration is accomplished, we may never realize the potential benefits of the acquisition. The integration of acquisitions with our operations requires significant attention from management, may impose substantial demands on our operations or other projects and may impose challenges on the combined business including, but not limited to, inconsistencies in business standards, procedures, policies, business cultures and internal controls and compliance. Certain acquisitions involve a capital outlay, and the return that we achieved on any capital invested may be less than the return that we would achieve on our other projects or investments. If we fail to complete the integration of recently acquired facilities, we may never fully realize the potential benefits of the related acquisitions.

We are in the process of integrating the business of Partnerships in Care and CRC into our current business. Successful integration depends on the ability to effect any required changes in operations or personnel, which may entail unforeseen liabilities. The integration of these businesses may expose us to certain risks, including the following: difficulty in integrating these businesses in a cost-effective manner, including the establishment of effective management information and financial control systems; unforeseen legal, regulatory, contractual, employment or other issues arising out of the combination; combining corporate cultures; maintaining employee morale and retaining key employees; potential disruptions to our on-going business caused by our senior management's focus on integrating these businesses; and performance of the combined assets not meeting our expectations or plans. A failure to properly integrate these businesses could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects.

***Benefits may not materialize***

When evaluating potential acquisition targets, we identify potential synergies and cost savings that we expect to realize upon the successful completion of the acquisition and the integration of the related operations. We may, however, be unable to achieve or may otherwise never realize the expected benefits. Our ability to realize the expected benefits from potential cost savings and revenue improvement opportunities is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control, such as changes to government regulation governing or otherwise impacting the behavioral healthcare industry, reductions in reimbursement rates from third-party payors, reductions in service levels under our contracts, operating difficulties, client preferences, changes in competition and general economic or industry conditions. If we are unsuccessful in implementing these improvements or if we do not achieve our expected results, it may adversely impact our business, financial condition or results of operations.

***Assumptions of unknown liabilities***

Facilities that we acquire, including the facilities acquired from Priory and CRC, may have unknown or contingent liabilities, including, but not limited to, liabilities for uncertain tax positions, liabilities for failure to comply with healthcare laws and regulations and liabilities for unresolved litigation or regulatory reviews. Although we typically attempt to exclude significant liabilities from our acquisition transactions and seek indemnification from the sellers of such facilities, the purchase agreement with Priory contained minimal representations and warranties about the entities and business that we acquired. In addition, we have no indemnification rights against the sellers under the Priory purchase agreement and all of the purchase price consideration was paid at closing of the Priory acquisition. See "—Our acquisition of Priory and CRC may expose us to unknown or contingent liabilities for which we will not be indemnified" for additional disclosure. Therefore, we may incur material liabilities for the past activities of

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acquired entities and facilities. Even in those acquisitions in which we have such rights, we may experience difficulty enforcing the sellers' obligations, or we may incur material liabilities for the past activities of acquired facilities. Such liabilities and related legal or other costs and/or resulting damage to a facility's reputation could negatively impact our business, financial condition or results of operations.

***Competing for acquisitions***

We face competition for acquisition candidates primarily from other for-profit healthcare companies, as well as from not-for-profit entities. Some of our competitors may have greater resources than we do. As a result, we may pay more to acquire a target business or may agree to less favorable deal terms than we would have otherwise. Our principal competitors for acquisitions have included Universal Health Services and private equity firms. Also, suitable acquisitions may not be accomplished due to unfavorable terms. Further, the cost of an acquisition could result in a dilutive effect on our results of operations, depending on various factors, including the amount paid for an acquired facility, the acquired facility's results of operations, the fair value of assets acquired and liabilities assumed, effects of subsequent legislation and limits on rate increases. In addition, we may have to pay cash, incur debt, or issue equity securities to pay for any such acquisition, which could adversely affect our financial results, result in dilution to our stockholders, result in increased fixed obligations or impede our ability to manage our operations.

***Managing growth***

Some of the facilities we have acquired or may acquire in the future may have had significantly lower operating margins prior to the time of our acquisition or may have had operating losses prior to such acquisition. If we fail to improve the operating margins of the facilities we acquire, operate such facilities profitably or effectively integrate the operations of the acquired facilities, our results of operations could be negatively impacted.

***Our acquisition of Priory and CRC may expose us to unknown or contingent liabilities for which we will not be indemnified.***

Priory and its subsidiaries may have unknown or contingent liabilities, including, but not limited to, liabilities for uncertain tax positions, for failure to comply with healthcare laws and regulations and for regulatory reviews or unresolved litigation, including pending matters relating to corporate manslaughter at one Priory facility and other potential significant charges relating to Priory's operations. Although we typically attempt to exclude significant liabilities from our acquisition transactions and seek indemnification from sellers, the purchase agreement with Priory contained minimal representations and warranties about the entities and business that we acquired.

The facilities we acquired in the acquisition of CRC have been and are currently subject to regulatory investigations, including but not limited to investigations by the Department of Justice's Drug Enforcement Administration, including for non-compliance with certain regulatory requirements relating to the improper handling of controlled substances, and as a result may have unknown or contingent liabilities, including, but not limited to, liabilities for uncertain tax positions, for failure to comply with healthcare laws and regulations and for unresolved litigation or regulatory reviews. In addition, the facilities we acquired in the acquisition of CRC have been and are from time to time, subject to various claims and legal actions that arise in the ordinary course of business, including claims for damages for personal injuries, wrongful death, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance or may exceed levels of insurance coverage. These liabilities may increase our costs and harm our business. In addition, a substantial number of our patients addicted to opiates are treated with opioid substitution medications. Opioid substitution medications are prescription medications and have substantial risks associated with them. The facilities we acquired in the acquisition of CRC are currently subject to, and may in the future be subject to, claims arising out of illness, injury or death allegedly caused by opioid replacement therapy. If we are unable to address or manage the risks of claims alleging damages caused by opioid replacement therapy, this could have a material adverse impact on our financial condition and results of operations.

We have no indemnification rights against the sellers under the acquisition agreements related to the Priory and CRC acquisitions and all of the purchase price consideration was paid at the closing of each acquisition. Therefore, we may incur material liabilities for the past activities of acquired entities and facilities. Such liabilities and related legal or other costs and/or resulting damage to a facility's reputation could negatively impact our business, financial condition or results of operations.

***The majority of our revenue from our operations in the United Kingdom is not guaranteed and is being generated either from spot purchasing or under block or framework agreements where no volume commitments are given. In addition, there can be no assurance that we can achieve any fee rate increases in the future or will not suffer any fee rate decreases.***

Any decline in demand for our services in the United Kingdom from publicly funded entities or private payers or any failure by us to extend current agreements or enter into alternative agreements on comparable terms with such entities could have an adverse effect on our average daily census ("ADC"), which would have a corresponding negative impact on our business, results of operations

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and financial condition. Further, there can be no assurances that we will be able to implement fee rate increases, which are a driver of our revenue from our operations, or not suffer from any decline in fee rates in the future. Should the effect of any increase in annual wages or other operating costs of the business exceed the effect of any increase in our fee rates or should our fee rates suffer a decline, we would have to absorb any costs that cannot be offset by our fees, which could have a negative impact on our business, results of operations and financial condition.

*Publicly funded entities*

A significant portion of our services funded by United Kingdom publicly funded entities are commissioned on a spot-purchase basis at prices determined by prevailing market conditions. It is generally a matter for the relevant commissioner to determine whether to use our services, and there is no guarantee that previous spot market purchasing activity by a commissioner will continue in the future or at all. We also have a number of fixed-term framework agreements which grant it preferred provider status with Local Authorities or the NHS typically lasting between one to three years. While we and the commissioners typically agree on pricing for 12 months with discounts related to the number of beds purchased, the commissioners do not make minimum purchasing commitments under such agreements. As such, commissioners may decide to place existing and new service users with our competitors, including their own in-house service providers, on short notice. We also have a small number of fixed-period block contracts, where a set number of beds are paid for at a discount to spot prices regardless of occupancy. As a result, should spot rates for our services increase, we would remain tied to the discounted rate, which could have an adverse effect on our results.

The rates that we charge publicly-funded entities for our services are negotiated individually with commissioners and are generally subject to annual adjustments on April 1 of each year, historically increasing by reference to the Retail Prices Index ("RPI") or Consumer Price Index ("CPI"), and sector specific wage indices. However, the current economic climate and the United Kingdom government's overriding economic policy to reduce the budget deficit means that, in the short term at least, commissioners may require that efficiency savings be made and that fees reflect local and national budget requirements. As a result, there can be no assurance that we can maintain the payment terms of our arrangements with publicly funded entities, including with respect to the timing of payments.

Further, following expiration of contracts there can be no assurance that negotiations with commissioners will result in the extension or renewal of existing arrangements or the entering into of alternative arrangements for those services. In addition, changing commissioning structures and practices, such as those under the Health and Social Care Act 2012, may involve tendering processes which may result in failing to remain or become an approved provider. Commissioners may also require that following the expiration date of current agreements with us, they contract with us on a spot basis rather than through a block arrangement or reduce the number of beds subject to block arrangements. Even if we are successful in extending current agreements or in entering into alternative arrangements, the duration of such extensions or arrangements is uncertain, and we may be unsuccessful in implementing rate increases under such agreements.

*Private payers*

Although we have agreements in place with a number of private medical insurance ("PMI") plans where pricing is generally agreed annually, there is no obligation on the PMI plans to refer its members to us or to pay for its members to use our services. Further, we may not be able to renew our existing arrangements with PMI plans on terms comparable to what it has achieved in the past. Fee rates for self-paying individuals are adjusted on January 1 of each year depending on capacity and demand in the relevant service markets. Fees paid or reimbursed by PMI plans are typically adjusted in line with specific contract terms and are generally based on RPI and specific wage indices. Demand in both the PMI market and the self-pay is dependent on economic conditions, which impacts the number of people with sufficient income or capital to pay for insurance coverage or treatment themselves.

***Structural shifts in the United Kingdom behavioral healthcare market may adversely affect us.****Publicly funded entities*

Payments for our services by publicly funded entities in the United Kingdom, particularly the NHS and Local Authorities, account for the vast majority of our U.K. revenues. We expect publicly funded entities in the United Kingdom to continue to generate the significant majority of our revenue from our operations in the United Kingdom. Budget constraints, public spending cuts or other financial pressures could cause such publicly funded entities to spend less money on the type of services that we provide, or political or United Kingdom government policy changes could mean that fewer of such services are purchased by publicly funded entities from independent sector providers, due to a shift in funding sources towards PMI or self-payment.

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While the outsourcing by the NHS in England of healthcare services has been increasing in recent years, the need of the NHS in England to achieve substantial efficiency savings is likely to result in continued funding pressure in the pricing of such services. For instance, Monitor, the NHS economic regulator, has determined national “tariffs” across a range of NHS services and has issued extensive guidance on how they are to be applied, including provision for local variations to national tariffs, subject to approval by Monitor. While none of our services are currently subject to national tariffs, the future application of any national tariff on our services could have a material adverse impact on our revenue.

In addition, the allocation of funding responsibility for adult social care will be subject to change over the next few years under the provisions of the Care Act 2014 under which individuals identified as being required to pay for their own care under the relevant means test will be required to take funding responsibility up to a specified lifetime monetary cap, with Local Authorities responsible for the remainder of expenses for personal care, excluding “daily living” expenses. This will potentially place greater funding responsibility with public sector bodies over the longer term, which will potentially exacerbate the current funding challenges faced by such bodies.

*Private payers*

Payments for our services in the United Kingdom by PMI plans account for a small portion of our U.K. revenue. In addition, payments for our services in the United Kingdom by self-pay patients, who purchase treatment on a spot basis account for a small portion of our U.K. revenues. Many of the patients who use our acute healthcare services in the United Kingdom do so because their PMI plan recognizes our facilities as being an appropriate provider of the psychiatric treatment services required by the patient. Our ability to attract patients who are funded by PMI plans could be adversely impacted if one or more PMI plans withdraws recognition status from our facilities, for example, as a result of a change in a PMI plan’s recognition status standards. In addition, many PMI plans have been changing the terms of their policies and shortening the length of time they will cover a stay at one of our U.K. facilities.

There can be no assurance that the entities or individuals who fund our services will not reduce or cease spending on the types of services that we provide or that alternative service or funding models for mental healthcare, learning disabilities care, specialist education or elderly care will not emerge. Any such funding or structural change in the markets where we operate could have a material adverse effect on our ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

***We are reliant upon maintaining strong relationships with commissioners employed by publicly funded entities, psychiatric and other medical consultants, and any reorganization of such publicly funded entities may result in the loss of those relationships.***

The relationships that we have with commissioners is a key driver of referrals for our facilities in the United Kingdom. Referrals to our existing Partnerships in Care business by the NHS accounted for a significant percentage of its revenue for the year ended December 31, 2015 and the addition of Priory increases our reliance on such referrals. Should there be a major reorganization of publicly funded entities, such as the NHS reorganization announced in 2010 and implemented between 2012 and 2013, we may need to rebuild such relationships which could result in a decrease in the number of referrals made to our facilities, which could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects. Any actual or perceived deterioration in service quality, any serious incidents at our facilities or any other event that could cause commissioners to prefer other service providers over us could also adversely impact referrals from commissioners. Further, our business also depends, in part, on psychiatric and other medical consultants referring their patients to us for treatment either as in-patients or day patients. From time to time, consultants may decide to relocate or reposition their practices, retire or refer patients elsewhere with the result that there is a decrease in the number of referrals made to our facilities. A deterioration in relationships with commissioners or consultants or the decision by one or more commissioners or consultants to refer patients to our competitors or to stop all referrals would have an adverse effect on the ADC at our facilities in the United Kingdom, which would have a corresponding negative impact on our business, results of operations and financial condition.

***Our operating costs are subject to increases, including due to statutorily mandated increases in the wages and salaries of our staff.***

The most significant operating expense for our facilities is wage costs, which represent the staff costs incurred in providing our services and running our facilities, and which are primarily driven by the number of employees and pay rates. The number of employees employed by us is primarily linked to the number of facilities we operate and the number of individuals cared for by us. While we can reduce the number of employees should occupancy rates decrease at our facilities, there is a limit on the extent to which this can be done without impacting quality of our services.



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Furthermore, in July 2015, a new National Living Wage was announced that will be introduced across the United Kingdom as the National Minimum Wage in April 2016 and this will increase our operating costs and, unless we can increase revenues or reduce other costs, will reduce our margins.

We also have a number of recurring costs including insurance, utilities and rental costs, and may face increases to other recurring costs such as regulatory compliance costs. There can be no assurance that any of our recurring costs will not grow at a faster rate than our revenue. As a result, any increase in our operating costs could have a material adverse effect on our business, results of operations and financial condition.

***We care for a large number of vulnerable individuals with complex needs and any care quality deficiencies could adversely impact our brand, reputation and ability to market our services effectively.***

Our future growth will partly depend on our ability to maintain our reputation for high quality services and, through successful sales and marketing activities, increased demand for our services. Factors such as health and safety incidents, problems at our facilities, regulatory enforcement actions, negative press or general customer dissatisfaction could lead to deterioration in the level of our quality ratings or the public perception of the quality of our services (including as a result of negative publicity about our industry generally), which in turn could lead to a loss of patient placements, referrals and self-pay patients or service users. Any impairment of our reputation, loss of goodwill or damage to the value of our brand name could have a material adverse effect on our business, results of operations and financial condition.

Many of our service users have complex medical conditions or special needs, are vulnerable and often require a substantial level of care and supervision. There is a risk that one or more service users could be harmed by one or more of our employees, either intentionally, through negligence or by accident. Further, individuals cared for by us have in the past engaged, and may in the future engage, in behavior that results in harm to themselves, our employees or to one or more other individuals, including members of the public. A serious incident involving harm to one or more service users or other individuals could result in negative publicity. Furthermore, the damage to our reputation or to the reputation of the relevant facility from any such incident could be exacerbated by any failure on our part to respond effectively to such incident. While we maintain an electronic incident reporting system, which management actively reviews and against which responses are monitored, have implemented rigorous clinical, educational and other governance procedures, carried out substantial employee training, employee inductions and employment reference procedures, including a criminal background check, for all front line staff and deployed public relations resources to manage both positive and negative publicity, there can be no assurance that an event giving rise to significant negative publicity would not occur. Such negative publicity could have a material adverse effect on our brand, reputation and ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

***We are and in the future may become involved in legal proceedings based on negligence or breach of a contractual or statutory duty from service users or their family members or from employees or former employees.***

From time to time, we are subject to complaints and claims from service users and their family members alleging professional negligence, medical malpractice or mistreatment. We are also subject to claims for unlawful detention from time to time when patients allege they should not have been detained under the Mental Health Act or where the appropriate procedures were not correctly followed.

Similarly, there may be substantial claims from employees in respect of personal injuries sustained in the performance of their duties, particularly in respect of incidents involving patients detained under the Mental Health Act and where future employment prospects are impaired. Current or former employees may also make claims against us in relation to breaches of employment legislation.

We may also be involved in coroner's inquests (or the Scottish equivalent) where there is a fatality at one of our facilities in the United Kingdom (such as pending matters relating to corporate manslaughter at one Priory facility) resulting in an adverse coroner's verdict or civil claims by individuals or criminal prosecutions by regulatory authorities. Any fines imposed by the courts are likely to be substantial in view of the Sentencing Council guidelines published in November 2015, which materially increase fines for corporate manslaughter and certain health and safety offenses. There may also be safeguarding incidents at our facilities which, depending on the circumstances, may result in custodial sentences or other criminal sanctions for the member of staff involved.

The incurrance of any legal fees, damage awards or other fines as summarized above as well as any impact on our brand or reputation as a result of being involved in any legal proceedings are likely to have a material adverse impact on our business, results of operations and financial condition.

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***We handle sensitive personal data in the ordinary course of business and any failure to maintain the confidentiality of such data could result in legal liability and reputational harm.***

We process and store sensitive personal data as part of our business. In the event of a security breach, sensitive personal data could become public. We are currently not aware of any material incidences of potential data breach; however, there can be no assurance that such breaches will not arise in future. Although we have in place policies and procedures to prevent such breaches, breaches could occur either as a result of a breach by us or as a result of a breach by a third party to whom we have provided sensitive personal data, and as a result, we could face liability under data protection laws. Such liability may result in sanctions, including fines and/or may cause us to suffer damage to our brand and reputation, which could have a material adverse effect on our business, results of operations and financial condition.

***Our insurance may be inadequate, premiums may increase and, if there is a significant deterioration in our claims experience, insurance may not be available on acceptable terms.***

We maintain liability insurance intended to cover service user, third party and employee personal injury claims. Due to the structure of our insurance program under which we carry a large self-insured retention, there may be substantial claims in respect of which the liability for damages and costs falls to us before being met by any insurance underwriter. There may also be claims in excess of our insurance cover or claims which are not covered by our insurance due to other policy limitations or exclusions or where we have failed to comply with the terms of the policy. Furthermore, there can be no assurance that we will be able to obtain liability insurance cover in the future on acceptable terms, or without substantial premium increases or at all, particularly if there is a deterioration in our claim experience history. A successful claim against us not covered by or in excess of our insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

***Foreign currency exchange rate fluctuations could materially impact our consolidated financial position and results of operations.***

The acquisition of Priory significantly expanded our United Kingdom operations. Accordingly, an increased portion of our revenues are derived from operations in the United Kingdom, and we intend to translate revenue and other results denominated in foreign currency into U.S. dollars for our consolidated financial statements. During periods of a strengthening U.S. dollar, our reported international revenue and expenses could be reduced because foreign currencies may translate into fewer U.S. dollars.

In all jurisdictions in which we operate, we are also subject to laws and regulations that govern foreign investment, foreign trade and currency exchange transactions. These laws and regulations may limit our ability to repatriate cash as dividends or otherwise to the United States and may limit our ability to convert foreign currency cash flows into U.S. dollars.

***We incurred significant transaction and acquisition-related costs in connection with the Priory, CRC and Partnerships in Care acquisitions.***

We incurred substantial costs in connection with the Priory, CRC and Partnerships in Care acquisitions, including transaction-related expenses. In addition, we may incur additional costs to maintain employee morale and to retain key employees, and we will incur substantial fees and costs related to formulating and executing integration plans. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to more than offset incremental transaction and acquisition-related costs over time, this net benefit may not be achieved in the near term, or at all.

***Our ability to grow our business through organic expansion either by developing new facilities or by modifying existing facilities is dependent upon many factors.***

Our ability to grow our business is dependent on capacity and occupancy at our facilities. Should our facilities reach maximum occupancy, we may need to implement other growth strategies either by developing new facilities or by modifying existing facilities.

Our facilities typically need to be purpose-designed in order to enable the type and quality of service that we provide. Consequently, we must either develop sites to create facilities or purchase or lease existing facilities, which may require substantial modification. We must be able to identify suitable sites and there is no guarantee that such sites will be available at all, or at an economically viable cost or in areas of sufficient demand for our services. The subsequent successful development and construction of a new facility is contingent upon, among other things, negotiation of construction contracts, regulatory permits and planning consents and satisfactory completion of construction. Similarly, our ability to expand existing facilities is also dependent upon various factors, including identification of appropriate expansion projects, permitting, licensure, financing, integration into our relationships with payors and referral sources, and margin pressure as new facilities are filled with patients.

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Delays caused by difficulties in respect of any of the above factors may lead to cost overruns and longer periods before a return is generated on an investment, if at all. We may incur significant capital expenditure but due to a regulatory, planning or other reason, may find that we are prevented from opening a new facility or modifying an existing facility. Moreover, even when incurring such development capital expenditure, there is no guarantee that we can fill beds when they become available. Upon operational commencement of a new facility, we typically expect that it will take approximately 12-18 months to reach our targeted occupancy level. Any delays or stoppages in our projects, the unsatisfactory completion or construction of such projects or the failure of such projects to increase our occupancy levels could have a material adverse effect on our ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

***We may fail to deal with clinical waste in accordance with applicable regulations or otherwise be in breach of relevant medical, health and safety or environmental laws and regulations.***

As part of our normal business activities, we produce and store clinical waste which may produce effects harmful to the environment or human health. The storage and transportation of such waste is strictly regulated. Our waste disposal services are outsourced and should the relevant service provider fail to comply with relevant regulations, we could face sanctions or fines which could adversely affect our brand, reputation, business or financial condition. Health and safety risks are inherent in the services that we provide and are constantly present in our facilities, primarily in respect of food and water quality, as well as fire safety and the risk that service users may cause harm to themselves, other service users or employees. From time to time, we have experienced, like other providers of similar services, undesirable health and safety incidents. Some of our activities are particularly exposed to significant medical risks relating to the transmission of infections or the prescription and administration of drugs for residents and patients. If any of the above medical or health and safety risks were to materialize, we may be held liable, fined and any registration certificate could be suspended or withdrawn for failure to comply with applicable regulations, which may have a material adverse impact on our business, results of operations and financial condition.

***The value of our real estate assets will be subject to fluctuations in the United Kingdom real estate market.***

As a result of the acquisition of Priory, we hold a larger portfolio of real estate assets. The value of our U.K. property portfolio is subject to, among other things, the conditions of the real estate market in the United Kingdom. The average values of real estate in the United Kingdom, as in other European countries, experienced sharp declines from 2007 as a result of the credit crisis, economic recession and reduced confidence in global financial markets. Although real estate asset values have recovered and stabilized in recent years in the United Kingdom, there can be no assurance that this improvement will continue or be sustainable. Real estate asset values could decline substantially, particularly if the United Kingdom economy or the Eurozone economy as a whole were to suffer a further recession or debt crisis, and could result in declines in the carrying values of our real estate assets (and the value at which we could dispose of such assets). Any of the above may have a material adverse effect on our business, results of operations and financial condition.

***Our business could be disrupted if our information systems fail or if our databases are destroyed or damaged.***

Our information technology platform supports, among other things, management control of patient administration, billing and financial information and reporting processes. For example, patients in our U.K. facilities and some of our U.S. facilities have an Electronic Patient Record that allows our caregivers and nurses to see all information about a patient's care and treatment. Although we have taken measures to mitigate potential information technology security risks and have information technology continuity plans across our business intended to minimize the impact of information technology failures, there can be no assurance that such measures and plans will be effective. Any failure in our information technology systems could adversely impact our business, results of operations and financial condition.

***We are subject to volatility in the global capital and credit markets as well as significant developments in macroeconomic and political conditions that are out of our control.***

Our business can be affected by a number of factors that are beyond our control, such as general macroeconomic conditions, conditions in the financial services markets, geopolitical conditions and other general political and economic developments. These conditions and developments may continue to put pressure on the economy in the United Kingdom, which could have a negative effect on our business. There may be a shortage of liquidity and credit in the United Kingdom or worldwide and this can be exacerbated by adverse developments in global or national political and/or macroeconomic conditions. In particular, we have historically financed the development of new facilities and the modification of our existing facilities through a variety of sources, including our own cash reserves and debt financing. While we intend to seek to finance new and existing developments from similar sources in the future, there may be insufficient cash reserves to fund the budgeted capital expenditure and market conditions and other factors may prevent us from obtaining debt financing on appropriate terms or at all. In addition, market conditions may limit the

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number of financial institutions that are willing to provide financing to landlords with whom we wish to contract to build homes for learning disability services, new schools or new mental health facilities which can then be made available to us under a long-term operating lease. If conditions in the United Kingdom or the global economy remain uncertain or weaken further, this could materially adversely impact our ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

***The pro forma financial statements were presented for illustrative purposes only and may not be an indication of our financial condition or results of operations following the acquisition of Priory.***

The pro forma financial statements we have filed with the SEC in connection with the acquisition of Priory were presented for illustrative purposes only and may not be an indication of our financial condition or results of operations following the acquisition of Priory for several reasons. For example, the pro forma financial statements were derived from our historical financial statements and Priory's, CRC's and Partnerships in Care's historical financial statements, and certain adjustments and assumptions have been made regarding us after giving effect to the acquisition of CRC. The information upon which these adjustments and assumptions have been made is preliminary, and these kinds of adjustments and assumptions are difficult to make with accuracy. Moreover, our actual financial condition and results of operations following the acquisition of Priory may not be consistent with, or evident from, the pro forma financial statements.

In addition, the assumptions used in preparing the pro forma financial data may not prove to be accurate, and other factors may affect our financial condition or results of operations following the acquisition of Priory. Any potential decline in our financial condition or results of operations may cause significant variations in the trading price of our securities.

***We made certain assumptions relating to the acquisition of Priory, CRC and Partnerships in Care in our forecasts that may prove to be materially inaccurate, and we may be unable to achieve the related cost savings or synergies.***

We made certain assumptions relating to the forecast level of cost savings, synergies and associated costs of the Priory, CRC and Partnerships in Care acquisitions. Our assumptions relating to the forecast level of cost savings, synergies and associated costs of the Priory, CRC and Partnerships in Care acquisitions may be inaccurate based on the information available to us, including as the result of the failure to realize the expected benefits of the Priory, CRC and Partnerships in Care acquisitions, higher than expected transaction and integration costs and unknown liabilities as well as general economic and business conditions that may adversely affect us. The anticipated cost savings related to the Priory, CRC and Partnerships in Care acquisitions are based upon assumptions about our ability to implement integration measures in a timely fashion and within certain cost parameters. Our ability to achieve the planned cost synergies is dependent upon a significant number of factors, some of which may be beyond our control. For example, we may be unable to eliminate duplicative costs and redundancies in a timely fashion or at all. Other factors that could cause us not to realize the expected cost savings and synergies, include but are not limited to, the following: higher than expected severance costs related to workforce reductions; higher than expected retention costs for employees that will be retained; inability to reduce or eliminate fees relating to professional, outside services and other redundant contracted services in a timely manner or at all; delays in the anticipated timing of activities related to our cost-saving plan including in the reduction of other general and administrative expenses; and other unexpected costs associated with operating our business. In addition, Priory operated at a net loss for the years ended December 31, 2014 and 2015, CRC operated at a net loss for the years ended December 31, 2013 and 2014, and Partnerships in Care operated at a net loss for the year ended December 31, 2013 and the six months ended June 30, 2014, any of which may impact our ability to achieve synergies and profitability from such acquisitions in the near term. Actual cost savings, the costs required to realize the cost savings and the assumptions underlying the cost savings could differ materially from our current expectations, and we cannot assure you that we will achieve the full amount of cost savings on the schedule anticipated or at all.

***Failure to comply with the international and U.S. laws and regulations applicable to our international operations could subject us to penalties and other adverse consequences.***

We face several risks inherent in conducting business internationally, including compliance with international and U.S. laws and regulations that apply to our international operations. These laws and regulations include U.S. laws such as the Foreign Corrupt Practices Act and other U.S. federal laws and regulations established by the Office of Foreign Asset Control, local laws such as the United Kingdom Bribery Act 2010 or other local laws which prohibit corrupt payments to governmental officials or certain payments or remunerations to customers. Given the high level of complexity of these laws, however, there is a risk that some provisions may be inadvertently breached by us, for example through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements, or otherwise. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, implementation of compliance programs, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to conduct business in the United Kingdom and could materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate these risks and manage these challenges.



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***We are subject to taxation in certain foreign jurisdictions. Any adverse development in the tax laws of such jurisdictions or any disagreement with our tax positions could have a material adverse effect on our business, financial condition or results of operations. In addition, our effective tax rate could change materially as a result of certain changes in our mix of United States and foreign earnings and other factors, including changes in tax laws.***

We are subject to taxation in, and to the tax laws and regulations of, certain foreign jurisdictions as a result of our operations and our corporate and financing structure. Adverse developments in these tax laws or regulations, or any change in position regarding the application, administration or interpretation thereof, in any applicable jurisdiction, could have a material adverse effect on our business, financial condition or results of operations. In addition, the tax authorities in any applicable jurisdiction may disagree with the tax treatment or characterization of any of our transactions, which, if successfully challenged by such tax authorities, could have a material adverse effect on our business, financial condition or results of operations. Certain changes in the mix of our earnings between jurisdictions and assumptions used in the calculation of income taxes, among other factors, could have a material adverse effect on our overall effective tax rate. In addition, legislative proposals to change the United States taxation of foreign earnings could also increase our effective tax rate.

***A worsening of the economic and employment conditions in the geographies in which we operate could materially affect our business and future results of operations.***

During periods of high unemployment, governmental entities often experience budget deficits as a result of increased costs and lower than expected tax collections. These budget deficits at the federal, state and local levels have decreased, and may continue to decrease, spending for health and human service programs, including Medicare and Medicaid in the United States, which are significant payor sources for our facilities. In periods of high unemployment, we also face the risk of potential declines in the population covered under private insurance, patient decisions to postpone or decide against receiving behavioral healthcare services, potential increases in the uninsured and underinsured populations we serve and further difficulties in collecting patient co-payment and deductible receivables.

Substantially all of the revenue from our eating disorder programs, extended care facilities and certain residential treatment facilities is derived from private-pay funding. In addition, a substantial portion of our revenue from our comprehensive treatment centers and youth programs is from self-payors. Accordingly, a sustained downturn in the U.S. economy could restrain the ability of our patients and the families of our students to pay for services.

Furthermore, the availability of liquidity and capital resources to fund the continuation and expansion of many business operations worldwide has been limited in recent years. Our ability to access the capital markets on acceptable terms may be severely restricted at a time when we would like, or need, access to those markets, which could have a negative impact on our growth plans, our flexibility to react to changing economic and business conditions and our ability to refinance existing debt (including debt under our Amended and Restated Senior Credit Facility and the Senior Notes). A sustained economic downturn or other economic conditions could also adversely affect the counterparties to our agreements, including the lenders under the Amended and Restated Senior Credit Facility, causing them to fail to meet their obligations to us.

***If we fail to comply with extensive laws and government regulations, we could suffer penalties or be required to make significant changes to our operations.***

Companies operating in the behavioral healthcare industry in the United States are required to comply with extensive and complex laws and regulations at the federal, state and local government levels relating to, among other things: billing practices and prices for services; relationships with physicians and other referral sources; necessity and quality of medical care; condition and adequacy of facilities; qualifications of medical and support personnel; confidentiality, privacy and security issues associated with health-related information and PHI; EMTALA compliance; handling of controlled substances; certification, licensure and accreditation of our facilities; operating policies and procedures; activities regarding competitors; state and local land use and zoning requirements; and addition or expansion of facilities and services.

Among these laws are the anti-kickback provision of the Social Security Act (the "Anti-Kickback Statute"), the federal physician self-referral (the "Stark Law"), the federal False Claims Act (the "False Claims Act"), and similar state laws. These laws, and particularly the Anti-Kickback Statute and the Stark Law, impact the relationships that we may have with physicians and other potential referral sources. We have a variety of financial relationships with physicians and other professionals who refer patients to our facilities, including employment contracts, leases and professional service agreements. The Office of the Inspector General of the Department of Health and Human Services has issued certain exceptions and safe harbor regulations that outline practices that are deemed acceptable under the Stark Law and Anti-Kickback Statute. While we endeavor to comply with applicable exceptions and safe harbors, certain of our current arrangements with physicians and other potential referral sources may not qualify for safe harbor protection. Failure to meet a safe harbor does not mean that the arrangement automatically violates the Anti-Kickback Statute, but

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may subject the arrangement to greater scrutiny. We cannot offer assurances that practices that are outside of a safe harbor will not be found to violate the Anti-Kickback Statute. Allegations of violations of the Stark Law and Anti-Kickback Statute may be brought under the federal Civil Monetary Penalty Law, which requires a lower burden of proof than criminal violations.

These laws and regulations are extremely complex, and, in many cases, we do not have the benefit of regulatory or judicial interpretation. In the future, it is possible that different interpretations of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our arrangements for facilities, equipment, personnel, services, capital expenditure programs and operating expenses. A determination that we have violated one or more of these laws could subject us to liabilities, including civil penalties, exclusion of one or more facilities from participation in the government healthcare programs and, for violations of certain laws and regulations, criminal penalties. Even the public announcement that we are being investigated for possible violations of these laws could cause our reputation to suffer and have a material adverse effect on our business, financial condition or results of operations. In addition, we cannot predict whether other similar legislation or regulations at the federal or state level will be adopted, what form such legislation or regulations may take or what their impact on us may be.

The construction and operation of healthcare facilities in the United States are subject to extensive federal, state and local regulation relating to, among other things, the adequacy of medical care, equipment, personnel, operating policies and procedures, fire prevention, rate-setting, compliance with building codes and environmental protection. Additionally, such facilities are subject to periodic inspection by government authorities to assure their continued compliance with these various standards. If we fail to adhere to these standards, we could be subject to monetary and operational penalties.

All of our facilities that handle and dispense controlled substances must comply with strict federal and state regulations regarding the purchasing, storing, distribution and disposal of such controlled substances. The potential for theft or diversion of such controlled substances for illegal uses has led the federal government as well as a number of states and localities to adopt stringent regulations not applicable to many other types of healthcare providers. Compliance with these regulations is expensive and these costs may increase in the future.

Property owners and local authorities have attempted, and may in the future attempt, to use or enact zoning ordinances to eliminate our ability to operate a given treatment facility or program. Local governmental authorities in some cases also have attempted to use litigation and the threat of prosecution to force the closure of certain comprehensive treatment facilities. If any of these attempts were to succeed or if their frequency were to increase, our revenue would be adversely affected and our operating results might be harmed. In addition, such actions may require us to litigate which would increase our costs.

Many of our U.S. facilities are also accredited by third-party accreditation agencies such as The Joint Commission or CARF. If any of our existing healthcare facilities lose their accreditation or any of our new facilities fail to receive accreditation, such facilities could become ineligible to receive reimbursement under Medicare or Medicaid.

Federal, state and local regulations determine the capacity at which many of our U.S. facilities may be operated. State licensing standards require many of our U.S. facilities to have minimum staffing levels; minimum amounts of residential space per student or patient and adhere to other minimum standards. Local regulations require us to follow land use guidelines at many of our U.S. facilities, including those pertaining to fire safety, sewer capacity and other physical plant matters.

Similarly, providers of behavioral healthcare services in the United Kingdom are also subject to a highly regulated business environment. Failure to comply with regulations, lapses in the standards of care, the receipt of poor ratings or lower ratings, the receipt of a negative report that leads to a determination of regulatory noncompliance, or the failure to cure any defect noted in an inspection report could lead to substantial penalties, including the loss of registration or closure of one or more facilities as well as damage to reputation.

Our operations in the United Kingdom are subject to a high level of regulation and supervision, ranging from the initial establishment of new facilities, which are subject to registration and licensing requirements, to the recruitment and appointment of staff, occupational health and safety, duty of care to service users, clinical and educational standards, conduct of our professional and support staff, the environment, public health and other areas. The regulatory requirements differ across our divisions, though almost all of our activity in England in relation to mental healthcare, elderly care and learning disability care are regulated by the CQC and in Scotland, Wales and Northern Ireland, its local equivalent. In addition, our children's homes, residential schools and colleges in England are regulated by OFSTED, and in Scotland and Wales by their local equivalent, and all of our schools must be licensed by the Department for Education. See "Item 1. Business—Regulation—U.K. Overview" for further details on the key regulations to which we are subject.

Inspections by CQC, OFSTED, and other regulators can be carried out on both an announced and unannounced basis depending on the specific regulatory provisions relating to the different healthcare, social care and specialist education services we provide.

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A failure to comply with regulations, the receipt of a poor rating or a lower rating, or the receipt of a negative report that leads to a determination of regulatory non-compliance or our failure to cure any defect noted in an inspection report could result in reputational damage, fines, the revocation or suspension of the registration of any facility or service or a decrease in, or cessation of, the services provided by us at any given facility. Additionally, where placements are funded by Local Authorities, most Local Authorities monitor performance and where there are shortcomings may impose punitive measures. These can, for example, include the suspension of new placements (known in the industry as "embargoes") and, in extreme cases, removal of all residents placed by that authority, which in turn may affect the level of referrals from other publicly funded entities and our occupancy levels.

Furthermore, new regulations or regulatory bodies may be introduced in the future or existing regulations and regulatory bodies may be amended or replaced and we may not adapt to such changes quickly enough, or in a cost-efficient manner. For example, the United Kingdom government appointed Monitor as the new market regulator for healthcare providers in 2012 by way of a licensing regime. Any failure by us to comply with the licensing regime could result in Monitor revoking our license, which would mean we would be unable to operate. In addition, such regulatory changes may preclude management from executing its business plan as intended, including the timing for new developments and openings.

We cannot guarantee that current laws, regulations and regulatory assessment methodologies will not be modified or replaced in the future. There can be no assurance that our business, results of operations and financial condition will not be adversely affected by any future regulatory developments or that the cost of compliance with new regulations will not be material.

***If we fail to cultivate new or maintain established relationships with referral sources, our business, financial condition or results of operations could be adversely affected.***

Our ability to grow or even to maintain our existing level of business depends significantly on our ability to establish and maintain close working relationships with physicians, managed care companies, insurance companies, educational consultants and other referral sources. We may not be able to maintain our existing referral source relationships or develop and maintain new relationships in existing or new markets. If we lose existing relationships with our referral sources, the number of people to whom we provide services may decline, which may adversely affect our revenue. If we fail to develop new referral relationships, our growth may be restrained.

***Our business in the United Kingdom relies upon maintaining strong relationships with commissioners employed by publicly funded entities and any reorganization of such publicly funded entities may result in the loss of those relationships.***

The relationships that the sales and marketing function of our facilities in the United Kingdom holds with commissioners is a key driver of referrals to such facilities. Should there be a major reorganization of publicly funded entities, such as the NHS reorganization announced in 2010 and implemented between 2012 and 2013, we may need to rebuild such relationships which could result in a decrease in the number of referrals made to our facilities in the United Kingdom, and which could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects.

***We may be required to spend substantial amounts to comply with statutes and regulations relating to privacy and security of PHI.***

There are currently numerous legislative and regulatory initiatives in both the U.S. and the United Kingdom addressing patient privacy and information security concerns. In particular, federal regulations issued under HIPAA require our U.S. facilities to comply with standards to protect the privacy, security and integrity of PHI. These regulations have imposed extensive administrative requirements, technical and physical information security requirements, restrictions on the use and disclosure of PHI and related financial information and have provided patients with additional rights with respect to their health information. Compliance with these regulations requires substantial expenditures, which could negatively impact our business, financial condition or results of operations. In addition, our management has spent, and may spend in the future, substantial time and effort on compliance measures.

In addition to HIPAA, we are subject to similar, and in some cases more restrictive, state and federal privacy requirements. For example, the federal government and some states impose laws governing the use and disclosure of health information pertaining to substance abuse treatment that are more stringent than the rules that apply to healthcare information generally. As public attention is drawn to the issues of the privacy and security of medical information, states may revise or expand their laws concerning the use and disclosure of health information, or may adopt new laws addressing these subjects.

Violations of the privacy and security regulations could subject our operations to substantial civil monetary penalties and substantial other costs and penalties associated with a breach of data security, including criminal penalties. We may also be subject to substantial reputational harm if we experience a substantial security breach involving PHI.

**Table of Contents*****We may be subject to liabilities from claims brought against us or our facilities.***

We are subject to medical malpractice lawsuits and other legal actions in the ordinary course of business. Some of these actions may involve large claims, as well as significant defense costs. We cannot predict the outcome of these lawsuits or the effect that findings in such lawsuits may have on us. All professional and general liability insurance we purchase is subject to policy limitations and in some cases, an insurance company may defend us subject to a reservation of rights. Insurance companies in at least two matters involving Acadia are defending us subject to a reservation of rights. Management believes that, based on our past experience and actuarial estimates, our insurance coverage is adequate considering the claims arising from the operations of our facilities. While we continuously monitor our coverage, our ultimate liability for professional and general liability claims could change materially from our current estimates. If such policy limitations should be partially or fully exhausted in the future, or payments of claims exceed our estimates or are not covered by our insurance, it could have a material adverse effect on our business, financial condition or results of operations. Further, insurance premiums have increased year over year and insurance coverage may not be available at a reasonable cost, especially given the significant increase in insurance premiums generally experienced in the healthcare industry.

***We have been and could become the subject of governmental investigations, regulatory actions and whistleblower lawsuits.***

Healthcare companies in both the United States and the United Kingdom are subject to numerous investigations by various governmental agencies. Certain of our facilities have received, and other facilities may receive, government inquiries from, and may be subject to investigation by, governmental agencies. Depending on whether the underlying conduct in these or future inquiries or investigations could be considered systemic, their resolution could have a material adverse effect on our business, financial condition and results of operations.

Further, under the False Claims Act, private parties are permitted to bring qui tam or "whistleblower" lawsuits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Because qui tam lawsuits are filed under seal, we could be named in one or more such lawsuits of which we are not aware. We may also be subject to substantial reputational harm as a result of the public announcement of any investigation into such claims.

***We are subject to uncertainties regarding recent health reform and budget legislation.***

The expansion of health insurance coverage in the United States under the Patient Protection and Affordable Care Act and the Reconciliation Act, or, collectively, the Health Reform Legislation, may increase the number of patients using our facilities who have either private or public program coverage. In addition, a disproportionately large percentage of new Medicaid coverage is likely to be in states that currently have relatively low income eligibility requirements and may include states where we have facilities. Furthermore, as a result of the Health Reform Legislation, there may be a reduction in uninsured patients, which should reduce our expense from uncollectible accounts receivable.

Notwithstanding the foregoing, the Health Reform Legislation makes a number of other changes to Medicare and Medicaid which management believes may have an adverse impact on us. The various provisions in the Health Reform Legislation that directly or indirectly affect reimbursement are scheduled to take effect over a number of years. Health Reform Legislation provisions are likely to be affected by the incomplete nature of implementing regulations or expected forthcoming interpretive guidance, gradual implementation or future legislation. Further, Health Reform Legislation provisions, such as those creating the Medicare Shared Savings Program and the Independent Payment Advisory Board, create certain flexibilities in how healthcare may be reimbursed by federal programs in the future. Thus, we cannot predict the impact of the Health Reform Legislation on our future reimbursement at this time.

The Health Reform Legislation also contains provisions aimed at reducing fraud and abuse in healthcare. The Health Reform Legislation amends several existing laws, including the federal Anti-Kickback Statute and the False Claims Act, making it easier for government agencies and private plaintiffs to prevail in lawsuits brought against healthcare providers. Congress revised the intent requirement of the Anti-Kickback Statute to provide that a person is not required to have actual knowledge or specific intent to commit a violation of the Anti-Kickback Statute in order to be found guilty of violating such law. The Health Reform Legislation also provides that any claims for items or services that violate the Anti-Kickback Statute are also considered false claims for purposes of the False Claims Act. The Health Reform Legislation provides that a healthcare provider that knowingly retains an overpayment in excess of 60 days is subject to the False Claims Act.

The impact of the Health Reform Legislation on each of our facilities may vary. We cannot predict the impact the Health Reform Legislation may have on our business, results of operations, cash flow, capital resources and liquidity, or whether we will be able to adapt successfully to the changes required by the Health Reform Legislation.



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We are similarly unable to guarantee that current United Kingdom laws, regulations and regulatory assessment methodologies will not be modified or replaced in the future. Additionally, there is a risk that budget constraints, public spending cuts (such as the cuts announced by the United Kingdom government in the 2010 Comprehensive Spending Review and implemented in the 2011 and 2012 government budgets) or other financial pressures could cause the NHS to reduce funding for the types of services that we provide. Such policy changes in the United Kingdom could lead to fewer services being purchased by publicly funded entities or material changes being made to their procurement practices, any of which could materially reduce our revenue. These and other future developments and amendments may negatively impact our operations, which could have a material adverse effect on our business, financial condition or results of operations. See “—Expanding our international operations poses additional risks to our business.”

Finally, the allocation of funding responsibility for adult social care will be subject to change over the next few years under the provisions of the Care Act 2014 with individuals identified as being required to pay for their own care under the relevant means test being required to take funding responsibility up to a specified lifetime monetary cap, with Local Authorities then becoming responsible for the continued funding of personal care, but not ‘daily living’ expenses. This will potentially place greater funding responsibility with public sector bodies over the longer term, which will potentially exacerbate the current funding challenges faced by such bodies.

***We operate in a highly competitive industry, and competition may lead to declines in patient volumes.***

The healthcare industry is highly competitive, and competition among healthcare providers (including hospitals) for patients, physicians and other healthcare professionals has intensified in recent years. There are other healthcare facilities that provide behavioral and other mental health services comparable to those offered by our facilities in each of the geographical areas in which we operate. Some of our competitors are owned by tax-supported governmental agencies or by non-profit corporations and may have certain financial advantages not available to us, including endowments, charitable contributions, tax-exempt financing and exemptions from sales, property and income taxes. Some of our for-profit competitors are local, independent operators or physician groups with strong established reputations within the surrounding communities, which may adversely affect our ability to attract a sufficiently large number of patients in markets where we compete with such providers. We also face competition from other for-profit entities, who may possess greater financial, marketing or research and development resources than us or may invest more funds in renovating their facilities or developing technology.

If our competitors are better able to attract patients, recruit and retain physicians and other healthcare professionals, expand services or obtain favorable managed care contracts at their facilities, we may experience a decline in patient volume and our results of operations may be adversely affected.

The NHS is the principal provider of mental healthcare services in the United Kingdom, with approximately 70% of the total beds in secure mental healthcare services in the United Kingdom. As the preferred provider, there is often a bias toward referrals to NHS, and therefore NHS facilities have maintained high occupancy rates. As a result of budget constraints, independent operators have emerged to satisfy the demand for mental health services not supplied by the NHS. In addition to the NHS, we face competition in the United Kingdom from independent sector providers and other publicly funded entities for individuals requiring care and for appropriate sites on which to develop or expand facilities in the United Kingdom. Should we fail to compete effectively with our peers and competitors in the industry, or if the competitive environment intensifies, individuals may be referred elsewhere for services that we provide, negatively impacting our ability to secure referrals and limiting the expansion of our business.

***The trend by insurance companies and managed care organizations to enter into sole-source contracts may limit our ability to obtain patients.***

Insurance companies and managed care organizations in the United States are entering into sole-source contracts with healthcare providers, which could limit our ability to obtain patients since we do not offer the range of services required for these contracts. Moreover, private insurers, managed care organizations and, to a lesser extent, Medicaid and Medicare, are beginning to carve-out specific services, including mental health and substance abuse services, and establish small, specialized networks of providers for such services at fixed reimbursement rates. Continued growth in the use of carve-out arrangements could materially adversely affect our business to the extent we are not selected to participate in such networks or if the reimbursement rate in such networks is not adequate to cover the cost of providing the service.

***Our performance depends on our ability to recruit and retain quality psychiatrists and other physicians.***

The success and competitive advantage of our facilities depends, in part, on the number and quality of the psychiatrists and other physicians on the medical staffs of our facilities and our maintenance of good relations with those medical professionals. Although we employ psychiatrists and other physicians at many of our facilities, psychiatrists and other physicians generally are not employees of our facilities, and, in a number of our markets, they have admitting privileges at competing hospitals providing acute or inpatient

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behavioral healthcare services. Such physicians (including psychiatrists) may terminate their affiliation with us at any time or admit their patients to competing healthcare facilities or hospitals. If we are unable to attract and retain sufficient numbers of quality psychiatrists and other physicians by providing adequate support personnel and facilities that meet the needs of those psychiatrists and other physicians, they may stop referring patients to our facilities and our results of operations may decline.

It may become difficult for us to attract and retain an adequate number of psychiatrists and other physicians to practice in certain of the communities in which our facilities are located. Our failure to recruit psychiatrists and other physicians to these communities or the loss of such medical professionals in these communities could make it more difficult to attract patients to our facilities and thereby may have a material adverse effect on our business, financial condition or results of operations. Additionally, our ability to recruit psychiatrists and other physicians is closely regulated. The form, amount and duration of assistance we can provide to recruited psychiatrists and other physicians is limited by the Stark Law, the Anti-Kickback Statute, state anti-kickback statutes, and related regulations.

***Our facilities face competition for staffing that may increase our labor costs and reduce our profitability.***

Our operations depend on the efforts, abilities, and experience of our management and medical support personnel, including our addiction counselors, therapists, nurses, pharmacists, licensed counselors, clinical technicians, and mental health technicians, as well as our psychiatrists and other professionals. We compete with other healthcare providers in recruiting and retaining qualified management, program directors, physicians (including psychiatrists) and support personnel responsible for the daily operations of our business, financial condition or results of operations.

With respect to our facilities in the United Kingdom, we compete with various providers, including the NHS and other employers, in attracting and retaining qualified management, medical, nursing, care and teaching personnel. Competition for such employees is growing and could lead to increases in our personnel and recruiting costs, which would in turn adversely impact our operating costs and margins. Competitors, in particular the NHS, may offer more attractive wages, pension plans or other benefits than us and we may not be able to provide similar offerings to our prospective employees as a result of cost or other reasons.

A shortage of nurses, qualified addiction counselors, and other medical support personnel has been a significant operating issue facing us and other healthcare providers. This shortage may require us to enhance wages and benefits to recruit and retain nurses, qualified addiction counselors, and other medical support personnel or require us to hire more expensive temporary or contract personnel. Further, because we generally recruit our personnel from the local area where the relevant facility is located, the availability in certain areas of suitably qualified personnel can be limited, particularly care home management, qualified teaching personnel and nurses. In addition, certain of our facilities are required to maintain specified staffing levels. To the extent we cannot meet those levels, we may be required to limit the services provided by these facilities, which would have a corresponding adverse effect on our net operating revenues. Certain of our treatment facilities are located in remote geographical areas, far from population centers, which increases this risk.

We cannot predict the degree to which we will be affected by the future availability or cost of attracting and retaining talented medical support staff. If our general labor and related expenses increase, we may not be able to raise our rates correspondingly. Our failure either to recruit and retain qualified management, psychiatrists, therapists, counselors, nurses and other medical support personnel or control our labor costs could have a material adverse effect on our results of operations.

***Some of our employees are represented by labor unions and any work stoppage could adversely affect our business.***

Increased labor union activity could adversely affect our labor costs. As of December 31, 2015, labor unions represented approximately 472 of our employees, at five of our U.S. facilities through eight collective bargaining agreements. The Royal College of Nursing represents nursing employees at all of our facilities in the United Kingdom. We cannot assure you that we will be able to successfully negotiate a satisfactory collective bargaining agreement or that employee relations will remain stable. Furthermore, there is a possibility that work stoppages could occur as a result of union activity, which could increase our labor costs and adversely affect our business, financial condition or results of operations. To the extent that a greater portion of our employee base unionizes and the terms of any collective bargaining agreements are significantly different from our current compensation arrangements, it is possible that our labor costs could increase materially and our business, financial condition or results of operations could be adversely affected.

***We depend on key management personnel, and the departure of one or more of our key executives or a significant portion of our local facility management personnel could harm our business.***

The expertise and efforts of our senior executives and the chief executive officer, chief financial officer, medical directors, physicians and other key members of our facility management personnel are important to the success of our business. The loss of the services of one or more of our senior executives, including the senior management team of Partnerships in Care or Priory, or of a significant portion of our facility management personnel could significantly undermine our management expertise and our ability to provide efficient, quality healthcare services at our facilities, which could harm our business.

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We are subject to various federal, foreign, state and local laws and regulations that:

- regulate certain activities and operations that may have environmental or health and safety effects, such as the generation, handling and disposal of medical wastes;
- impose liability for costs of cleaning up, and damages to natural resources from, past spills, waste disposals on and off-site, or other releases of hazardous materials or regulated substances; and
- regulate workplace safety.

Compliance with these laws and regulations could increase our costs of operation. Violation of these laws may subject us to significant fines, penalties or disposal costs, which could negatively impact our results of operations, financial condition or cash flows. We could be responsible for the investigation and remediation of environmental conditions at currently or formerly owned, operated or leased sites, as well as for associated liabilities, including liabilities for natural resource damages, third party property damage or personal injury resulting from lawsuits that could be brought by the government or private litigants, relating to our operations, the operations of facilities or the land on which our facilities are located. We may be subject to these liabilities regardless of whether we operate, lease or own the facility, and regardless of whether such environmental conditions were created by us or by a prior owner or tenant, or by a third party or a neighboring facility whose operations may have affected such facility or land. That is because liability for contamination under certain environmental laws can be imposed on current or past owners, lessors or operators of a site without regard to fault. We cannot assure you that environmental conditions relating to our prior, existing or future sites or those of predecessor companies whose liabilities we may have assumed or acquired will not have a material adverse effect on our business, financial condition or results of operations.

***State efforts to regulate the construction or expansion of healthcare facilities in the United States could impair our ability to operate and expand our operations.***

A majority of the states in which we operate facilities in the United States have enacted certificate of need ("CON"), laws that regulate the construction or expansion of healthcare facilities, certain capital expenditures or changes in services or bed capacity. In giving approval for these actions, these states consider the need for additional or expanded healthcare facilities or services. Our failure to obtain necessary state approval could (i) result in our inability to acquire a targeted facility, complete a desired expansion or make a desired replacement, (ii) make a facility ineligible to receive reimbursement under the Medicare or Medicaid programs or (iii) result in the revocation of a facility's license or impose civil or criminal penalties on us, any of which could harm our business.

In addition, significant CON reforms have been proposed in a number of states that would increase the capital spending thresholds and provide exemptions of various services from review requirements. In the past, we have not experienced any material adverse effects from such requirements, but we cannot predict the impact of these changes upon our operations.

***We may be unable to extend leases at expiration, which could harm our business, financial condition or results of operations.***

We lease the real property on which a number of our facilities are located. Our lease agreements generally give us the right to renew or extend the term of the leases and, in certain cases, purchase the real property. These renewal and purchase rights generally are based upon either prescribed formulas or fair market value. Management expects to renew, extend or exercise purchase options with respect to our leases in the normal course of business; however, there can be no assurance that these rights will be exercised in the future or that we will be able to satisfy the conditions precedent to exercising any such renewal, extension or purchase options. Furthermore, the terms of any such options that are based on fair market value are inherently uncertain and could be unacceptable or unfavorable to us depending on the circumstances at the time of exercise. If we are not able to renew or extend our existing leases, or purchase the real property subject to such leases, at or prior to the end of the existing lease terms, or if the terms of such options are unfavorable or unacceptable to us, our business, financial condition or results of operations could be adversely affected.

***Controls designed to reduce inpatient services may reduce our revenues.***

Controls imposed by Medicare, Medicaid and commercial third-party payors designed to reduce admissions and lengths of stay, commonly referred to as "utilization review," have affected and are expected to continue to affect our facilities. Inpatient utilization, average lengths of stay and occupancy rates continue to be negatively affected by payor-required preadmission authorization and utilization review and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. Efforts to impose more stringent cost controls are expected to continue. For example, the Health Reform Legislation potentially expands the use of prepayment review by Medicare contractors by eliminating statutory restrictions on its use. Utilization review is also a requirement of most non-governmental managed-care organizations and other third party payors. Although we are

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unable to predict the effect these controls and changes will have on our operations, significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on our financial condition and results of operations.

Additionally, the outsourcing of behavioral healthcare to the private sector is a relatively recent development in the United Kingdom. There has been some opposition to outsourcing. While we anticipate that the NHS will continue to rely increasingly upon outsourcing, we cannot assure you that the outsourcing trend will continue. The absence of future growth in the outsourcing of behavioral healthcare services could have a material adverse impact on our business, financial condition and results of operations.

***Although we have facilities in 39 states, the United Kingdom and Puerto Rico, we have substantial operations in each of the United Kingdom, Pennsylvania and Arkansas, which makes us especially sensitive to regulatory, economic, environmental and competitive conditions and changes in those locations.***

On a pro forma basis for the year ended December 31, 2015, giving effect to the 2014 and 2015 Acquisitions and the Priory acquisition, our revenues in the United Kingdom represented approximately 45% of our total revenue. Arkansas and Pennsylvania represented approximately 6% and 4% of our revenue on a pro forma basis for the year ended December 31, 2015, respectively. This concentration makes us particularly sensitive to legislative, regulatory, economic, environmental and competition changes in those locations. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in these locations could have a disproportionate effect on our overall business results. If our facilities in these states are adversely affected by changes in regulatory and economic conditions, our business, financial condition or results of operations could be adversely affected.

In addition, some of our facilities are located in hurricane-prone areas. In the past, hurricanes have had a disruptive effect on the operations of facilities and the patient populations in hurricane-prone areas. Our business activities could be significantly disrupted by a particularly active hurricane season or even a single storm, and our property insurance may not be adequate to cover losses from such storms or other natural disasters.

***We are required to treat patients with emergency medical conditions regardless of ability to pay.***

In accordance with our internal policies and procedures, as well as EMTALA, we provide a medical screening examination to any individual who comes to one of our hospitals seeking medical treatment (whether or not such individual is eligible for insurance benefits and regardless of ability to pay) to determine if such individual has an emergency medical condition. If it is determined that such person has an emergency medical condition, we provide such further medical examination and treatment as is required to stabilize the patient's medical condition, within the facility's capability, or arrange for the transfer of the individual to another medical facility in accordance with applicable law and the treating hospital's written procedures. Our hospitals may face substantial civil penalties if we fail to provide appropriate screening and stabilizing treatment or fail to facilitate other appropriate transfers as required by EMTALA. Our obligations under EMTALA may increase substantially; CMS has recently sought stakeholder comments concerning the potential applicability of EMTALA to hospital inpatients and the responsibilities of hospitals with specialized capabilities, such as ours, to accept the transfer of such patients. If the number of indigent and charity care patients with emergency medical conditions we treat increases significantly, or if regulations expanding our obligations to inpatients under EMTALA are adopted, our results of operations may be harmed.

***An increase in uninsured or underinsured patients or the deterioration in the collectability of the accounts of such patients could harm our results of operations.***

Collection of receivables from third-party payors and patients is critical to our operating performance. Our primary collection risks relate to uninsured patients and the portion of the bill that is the patient's responsibility, which primarily includes co-payments and deductibles. We estimate our provisions for doubtful accounts based on general factors such as payor source, the agings of the receivables and historical collection experience. At December 31, 2015, our allowance for doubtful accounts represented approximately 12% of our accounts receivable balance as of such date. We routinely review accounts receivable balances in conjunction with these factors and other economic conditions that might ultimately affect the collectability of the patient accounts and make adjustments to our allowances as warranted. Significant changes in business office operations, payor mix, economic conditions or trends in federal and state governmental health coverage (including implementation of the Health Reform Legislation) could affect our collection of accounts receivable, cash flow and results of operations. If we experience unexpected increases in the growth of uninsured and underinsured patients or in bad debt expenses, our results of operations will be harmed.



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***A cyber security incident could cause a violation of HIPAA and other privacy laws and regulations or result in a loss of confidential data.***

A cyber-attack that bypasses our information technology ("IT"), security systems causing an IT security breach, loss of PHI or other data subject to privacy laws, loss of proprietary business information, or a material disruption of our IT business systems, could have a material adverse impact on our business, financial condition or results of operations. In addition, our future results of operations, as well as our reputation, could be adversely impacted by theft, destruction, loss, or misappropriation of PHI, other confidential data or proprietary business information.

***Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), could have a material adverse effect on our business.***

We are required to maintain internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. If we are unable to maintain adequate internal control over financial reporting, we may be unable to report our financial information on a timely basis, may suffer adverse regulatory consequences or violations of NASDAQ listing rules and may breach the covenants under our financing arrangements. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. If we or our independent registered public accounting firm identify any material weakness in our internal control over financial reporting in the future (including any material weakness in the controls of businesses we have acquired), their correction could require additional remedial measures which could be costly, time-consuming and could have a material adverse effect on our business.

***As part of the acquisition of Priory, we assumed Priory's existing pension plans and are responsible for ongoing funding requirements over which we have limited influence. In addition, we may be required to increase funding of these pension plans and/or be subject to restrictions on the use of excess cash.***

As a result of the acquisition of Priory, we assumed four defined benefit pension plans and 17 defined contribution pension plans under which we are obligated to make future contributions to fund benefits to participants. The contributions required to fund the defined benefit pension obligations are determined by the plan's actuary based on actuarial valuations, which themselves are based on assumptions and estimates about the long-term operation of the plan, including mortality rates of members, the performance of financial markets and interest rates. In addition, if the actual operation of the plan differs from the actuary's assumptions, additional contributions by us may be required. Benefits under the defined contribution pension plans are based on annual contributions as a proportion of earnings.

Our funding requirements under the defined benefit and defined contribution pension plans for future years are expected to increase from the current levels. Depending on our cash position at the time, any such funding, or contributions to, our pension plans could impact our operating flexibility and financial position, including adversely affecting our cash flow for the quarter in which they are made. In addition, changes to pension legislation in the United Kingdom may adversely affect our funding requirements. Maintenance of these 21 plans may result in additional expenses. Termination of these plans could have an adverse impact on employee relations and a material adverse effect on our business, results of operations, financial condition or prospects.

***As part of the Partnerships in Care acquisition, we assumed Partnerships in Care's existing pension plans and a defined contribution plan and are responsible for an underfunded pension liability. In addition, we may be required to increase funding of the pension plans and/or be subject to restrictions on the use of excess cash.***

Partnerships in Care is the sponsor of a defined benefit pension plan (the Partnerships in Care Limited Pension and Life Assurance Plan) that covers approximately 187 members in the United Kingdom, most of whom are inactive and retired former employees. In May 2005, this plan was closed to new participants but then-current participants continue to accrue benefits, and effective May 2015, the active participants no longer accrued benefits. As of December 31, 2015, the net deficit recognized under U.S. GAAP in respect of this scheme was £1.9 million.

**Table of Contents*****Future sales of common stock by our existing stockholders may cause our stock price to fall.***

The market price of our common stock could decline as a result of sales by our existing stockholders in the market, or the perception that these sales could occur. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

Waud Capital Partners, L.L.C. and certain of its affiliates ("Waud Capital Partners"), investment funds affiliated with Bain Capital Partners, LLC (collectively, "Bain Capital"), along with certain current and former members of our management, and investment funds affiliated with Advent International Corporation ("Advent"), have certain demand and piggyback registration rights with respect to shares of our common stock beneficially owned by them. The presence of additional shares of our common stock trading in the public market, as a result of the exercise of such registration rights, may have an adverse effect on the market price of our securities.

***If securities or industry analysts do not publish research or reports about our business, if they were to change their recommendations regarding our stock adversely or if our operating results do not meet their expectations, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us. If one or more of these analysts cease coverage of us or fail to publish regular reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

***We incur substantial costs as a result of being a public company.***

As a public company, we incur significant legal, accounting, insurance and other expenses, including costs associated with public company reporting requirements. We incur costs associated with complying with the requirements of the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and related rules implemented by the SEC and NASDAQ. Enacted in July 2010, the Dodd-Frank Act contains significant corporate governance and executive compensation-related provisions, some of which the SEC has recently implemented by adopting additional rules and regulations in areas such as executive compensation. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. Management expects these laws and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although management is currently unable to estimate these costs with any degree of certainty. These laws and regulations could make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

***We are party to a stockholders agreement with Waud Capital Partners and Bain Capital, which provides them with certain rights over Company matters.***

In accordance with the terms of the Amended and Restated Stockholders Agreement, Waud Capital Partners has the right to designate, following the expiration of the current term of directors designated by Waud Capital Partners, one nominee for election to the board of directors of the Company for one additional three-year term. Waud Capital Partners also retains a consent right over the removal of existing directors designated by Waud Capital Partners and any vacancies in such designated board seats may be filled by Waud Capital Partners prior to the expiration of the current terms of such directors. The merger agreement related to our acquisition of CRC provided that one designee of Bain Capital be appointed to our board of directors as a Class III director at the effective time of the merger.

It is possible that the interests of Waud Capital Partners and Bain Capital may in some circumstances conflict with our interests and the interests of our stockholders.

***Provisions of our charter documents or Delaware law could delay or prevent an acquisition of us, even if the acquisition would be beneficial to our stockholders, and could make it more difficult for stockholders to change management.***

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. This is because these provisions may prevent or frustrate attempts by stockholders to replace or remove our management. These provisions include:

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- a classified board of directors;
- a prohibition on stockholder action through written consent;
- a requirement that special meetings of stockholders be called only upon a resolution approved by a majority of our directors then in office;
- advance notice requirements for stockholder proposals and nominations; and
- the authority of the board of directors to issue preferred stock with such terms as the board of directors may determine.

Section 203 of the Delaware General Corporation Law ("DGCL") prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person that together with its affiliates owns or within the last three years has owned 15% of voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Although we have elected not to be subject to Section 203 of the DGCL, our amended and restated certificate of incorporation contains provisions that have the same effect as Section 203, except that they provide that Waud Capital Partners, its affiliates and any investment fund managed by Waud Capital Partners and any persons to whom Waud Capital Partners sells at least five percent (5%) of our outstanding voting stock will be deemed to have been approved by our board of directors, and thereby not subject to the restrictions set forth in our amended and restated certificate of incorporation that have the same effect as Section 203 of the DGCL. Accordingly, the provision in our amended and restated certificate of incorporation that adopts a modified version of Section 203 of the DGCL may discourage, delay or prevent a change in control of us.

As a result of these provisions in our charter documents and Delaware law, the price investors may be willing to pay in the future for shares of our common stock may be limited.

***We have a very limited number of authorized but unissued shares of common stock, and we may not be able to increase the number of authorized shares of our common stock.***

Under our amended and restated certificate of incorporation, we have the authority to issue 90,000,000 shares of common stock. As of December 31, 2015, we had 71,689,268 shares of common stock issued and outstanding, and had an aggregate of 1,926,522 shares reserved for future grants under our Incentive Compensation Plan. We issued 11,500,000 shares of our common stock in a registered public offering that closed on January 12, 2016. As a result of the acquisition of Priory, we issued an additional 4,033,561 to Advent, and we do not have many shares of common stock available for future issuance.

In February 2016, we filed definitive proxy materials with the SEC related to the Company's Special Meeting of the Stockholders to be held on March 3, 2016, where the Company's stockholders will be asked to amend the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock from 90,000,000 shares to 180,000,000 shares. We cannot provide any assurance that we will be able to obtain the required stockholder approval. If our stockholders do not approve an increase in our authorized common shares, our ability to use our shares to finance acquisitions and to raise additional capital in the future will be limited and, as result, would impair our financial flexibility, including our liquidity needs and our ability to repay our debt obligations when they mature, execute our business plan, make future acquisitions, and fund operations, any of which would have a material adverse effect on our business, results of operations, financial condition or prospects.

***We do not anticipate paying any cash dividends in the foreseeable future.***

We intend to retain our future earnings, if any, for use in our business or for other corporate purposes and do not anticipate that cash dividends with respect to common stock will be paid in the foreseeable future. Any decision as to the future payment of dividends will depend on our results of operations, financial position and such other factors as our board of directors, in its discretion, deems relevant. In addition, the terms of our debt substantially limit our ability to pay dividends. As a result, capital appreciation, if any, of our common stock will be a stockholder's sole source of gain for the foreseeable future.

#### **Item 1B. Unresolved Staff Comments.**

None.

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Table of Contents**Item 2. Properties.**

The following table lists, by state or country, the number of behavioral healthcare facilities directly or indirectly owned and operated by us as of December 31, 2015:

| <u>State</u>                | <u>Facilities</u> | <u>Operated Beds</u> |
|-----------------------------|-------------------|----------------------|
| Alaska                      | 1                 | —                    |
| Arizona                     | 4                 | 328                  |
| Arkansas                    | 6                 | 622                  |
| California                  | 22                | 362                  |
| Delaware                    | 2                 | 85                   |
| Florida                     | 6                 | 422                  |
| Georgia                     | 5                 | 278                  |
| Idaho                       | 1                 | —                    |
| Illinois                    | 1                 | 164                  |
| Indiana                     | 8                 | 293                  |
| Kansas                      | 1                 | —                    |
| Louisiana                   | 6                 | 291                  |
| Maine                       | 4                 | —                    |
| Maryland                    | 3                 | —                    |
| Massachusetts               | 12                | 120                  |
| Michigan                    | 5                 | 291                  |
| Mississippi                 | 2                 | 332                  |
| Missouri                    | 2                 | 295                  |
| Montana                     | 1                 | 108                  |
| Nevada                      | 5                 | 104                  |
| New Hampshire               | 2                 | —                    |
| New Jersey                  | 1                 | —                    |
| New Mexico                  | 2                 | 183                  |
| North Carolina              | 10                | 423                  |
| Ohio                        | 2                 | 106                  |
| Oklahoma                    | 1                 | 108                  |
| Oregon                      | 6                 | —                    |
| Pennsylvania                | 30                | 1,197                |
| Rhode Island                | 2                 | —                    |
| South Carolina              | 1                 | 42                   |
| South Dakota                | 1                 | 122                  |
| Tennessee                   | 4                 | 381                  |
| Texas                       | 5                 | 467                  |
| Utah                        | 6                 | 125                  |
| Vermont                     | 1                 | —                    |
| Virginia                    | 6                 | 176                  |
| Washington                  | 6                 | 111                  |
| West Virginia               | 7                 | —                    |
| Wisconsin                   | 13                | 35                   |
| <b><u>International</u></b> |                   |                      |
| Puerto Rico                 | 1                 | 172                  |
| United Kingdom              | 54                | 2,214                |
|                             | <u>258</u>        | <u>9,968</u>         |

See “Business— U.S. Operations” and “Business— U.K. Operations— Description of U.K. Facilities” for a summary description of our U.S. and U.K. facilities that we own and lease. We currently lease approximately 54,000 square feet of office space at 6100 Tower Circle, Franklin, Tennessee, for our corporate headquarters. Our headquarters and facilities are generally well maintained and in good operating condition.



**Table of Contents****Item 3. Legal Proceedings.**

We are, from time to time, subject to various claims and legal actions that arise in the ordinary course of our business, including claims for damages for personal injuries, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance. In the opinion of management, we are not currently a party to any proceeding that would have a material adverse effect on our business, financial condition or results of operations.

**Item 4. Mine Safety Disclosures**

Not applicable.

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## PART II

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities. Price Range of Common Stock**

Our common stock is listed for trading on The NASDAQ Global Select Market under the symbol "ACHC." The following table sets forth the high and low sales prices per share of our common stock as reported on The NASDAQ Global Select Market for the two most recent fiscal years:

|                                      | High    | Low     |
|--------------------------------------|---------|---------|
| <b>Year ended December 31, 2014:</b> |         |         |
| First Quarter                        | \$53.87 | \$44.00 |
| Second Quarter                       | \$49.29 | \$38.76 |
| Third Quarter                        | \$52.37 | \$43.45 |
| Fourth Quarter                       | \$66.88 | \$46.87 |
| <b>Year ended December 31, 2015:</b> |         |         |
| First Quarter                        | \$73.81 | \$55.57 |
| Second Quarter                       | \$78.51 | \$64.91 |
| Third Quarter                        | \$85.62 | \$58.70 |
| Fourth Quarter                       | \$74.77 | \$54.41 |

**Stockholders**

As of February 25, 2016, there were approximately 381 holders of record of our common stock.

**Recent Sales of Unregistered Securities**

None, other than as previously reported in connection with the CRC and Priory acquisitions. See "Business—Overview—Acquisitions."

**Issuer Purchases of Equity Securities**

During the three months ended December 31, 2015, the Company withheld shares of Company common stock to satisfy employee minimum statutory tax withholding obligations payable upon the vesting of restricted stock, as follows:

| Period                   | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------|----------------------------------|------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| October 1 – October 31   | 978                              | \$ 62.02                     | —                                                                                | —                                                                              |
| November 1 – November 30 | —                                | —                            | —                                                                                | —                                                                              |
| December 1 – December 31 | —                                | —                            | —                                                                                | —                                                                              |
| Total                    | 978                              |                              |                                                                                  |                                                                                |

**Dividends**

We have never declared or paid dividends on our common stock. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business and to repay indebtedness, and therefore we do not anticipate paying any cash dividends in the foreseeable future. Additionally, because we are a holding company, our ability to pay dividends on our common stock is limited by restrictions on the ability of our subsidiaries to pay dividends or make distributions to us, including restrictions under the terms of the agreements governing our indebtedness. Any future determination to pay dividends will be at the discretion of our board of directors, subject to compliance with covenants in current and future agreements governing our indebtedness (including our Amended and Restated Senior Credit Facility and the indenture governing our Senior Notes), and will depend upon our results of operations, financial condition, capital requirements and other factors that our board of directors deems relevant.

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Table of Contents**Item 6. Selected Financial Data.**

The selected financial data presented below for the years ended December 31, 2015, 2014 and 2013, and as of December 31, 2015 and 2014, is derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected financial data for the years ended December 31, 2012 and 2011, and as of December 31, 2013, 2012 and 2011, is derived from our audited consolidated financial statements not included herein. The audited financial statements for the periods presented have been reclassified for discontinued operations. The selected consolidated financial data below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The selected financial data presented below does not give effect to our acquisitions prior to the respective date of such acquisitions.

|                                                                   | Year Ended December 31,               |             |            |           |             |
|-------------------------------------------------------------------|---------------------------------------|-------------|------------|-----------|-------------|
|                                                                   | 2015                                  | 2014        | 2013       | 2012      | 2011        |
|                                                                   | (In thousands, except per share data) |             |            |           |             |
| <b>Income Statement Data:</b>                                     |                                       |             |            |           |             |
| Revenue before provision for doubtful accounts                    | \$1,829,619                           | \$1,030,784 | \$ 735,109 | \$413,850 | \$219,704   |
| Provision for doubtful accounts                                   | (35,127)                              | (26,183)    | (21,701)   | (6,389)   | (3,206)     |
| Revenue                                                           | 1,794,492                             | 1,004,601   | 713,408    | 407,461   | 216,498     |
| Salaries, wages and benefits <sup>(1)</sup>                       | 973,732                               | 575,412     | 407,962    | 239,639   | 152,609     |
| Professional fees                                                 | 116,463                               | 52,482      | 37,171     | 19,019    | 8,896       |
| Supplies                                                          | 80,663                                | 48,422      | 37,569     | 19,496    | 11,349      |
| Rents and leases                                                  | 32,528                                | 12,201      | 10,049     | 7,838     | 5,576       |
| Other operating expenses                                          | 206,746                               | 110,654     | 80,572     | 42,777    | 20,171      |
| Depreciation and amortization                                     | 63,550                                | 32,667      | 17,090     | 7,982     | 4,278       |
| Interest expense, net                                             | 106,742                               | 48,221      | 37,250     | 29,769    | 9,191       |
| Debt extinguishment costs                                         | 10,818                                | —           | 9,350      | —         | —           |
| Gain on foreign currency derivatives                              | 1,926                                 | (15,262)    | —          | —         | —           |
| Sponsor management fees                                           | —                                     | —           | —          | —         | 1,347       |
| Transaction-related expenses                                      | 36,571                                | 13,650      | 7,150      | 8,112     | 41,547      |
| Income (loss) from continuing operations, before income taxes     | 164,753                               | 126,154     | 69,245     | 32,829    | (38,466)    |
| Provision for (benefit from) income taxes <sup>(2)</sup>          | 53,388                                | 42,922      | 25,975     | 12,325    | (5,272)     |
| Income (loss) from continuing operations                          | 111,365                               | 83,232      | 43,270     | 20,504    | (33,194)    |
| (Loss) income from discontinued operations, net of income taxes   | 111                                   | (192)       | (691)      | (101)     | (1,698)     |
| Net income (loss)                                                 | 111,476                               | 83,040      | 42,579     | 20,403    | (34,892)    |
| Net loss attributable to noncontrolling interests                 | 1,078                                 | —           | —          | —         | —           |
| Net income (loss) attributable to Acadia Healthcare Company, Inc. | \$ 112,554                            | \$ 83,040   | \$ 42,579  | \$ 20,403 | \$ (34,892) |
| Income (loss) from continuing operations per share basic          | \$ 1.65                               | \$ 1.51     | \$ 0.87    | \$ 0.53   | \$ (1.77)   |
| Income (loss) from continuing operations per share diluted        | \$ 1.64                               | \$ 1.50     | \$ 0.86    | \$ 0.53   | \$ (1.77)   |
| <b>Balance Sheet Data (as of end of period):</b>                  |                                       |             |            |           |             |
| Cash and cash equivalents                                         | \$ 11,215                             | \$ 94,040   | \$ 4,569   | \$ 49,399 | \$ 61,118   |
| Total assets                                                      | 4,279,208                             | 2,206,955   | 1,213,623  | 972,546   | 402,736     |
| Total debt                                                        | 2,240,744                             | 1,079,635   | 606,100    | 462,451   | 267,199     |
| Total equity                                                      | 1,683,028                             | 880,965     | 480,710    | 432,550   | 96,365      |

(1) Salaries, wages and benefits for the years ended December 31, 2015, 2014, 2013 and 2012 include \$20.5 million, \$10.1 million, \$5.2 million and \$2.3 million, respectively, of equity-based compensation expense.

(2) On April 1, 2011, the Company and its wholly-owned limited liability company subsidiaries elected to be taxed as a corporation for federal and state income tax purposes, and, therefore, income taxes became the obligation of the Company subsequent to April 1, 2011.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion and analysis of our financial condition and results of operations with our audited consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

**Table of Contents****Forward-Looking Statements**

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statements that address future results or occurrences. In some cases you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “would,” “should,” “could” or the negative thereof. Generally, the words “anticipate,” “believe,” “continue,” “expect,” “intend,” “estimate,” “project,” “plan” and similar expressions identify forward-looking statements. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks, uncertainties and other factors, many of which are outside of our control, which could cause our actual results, performance or achievements to differ materially from any results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

- review of our acquisition of Priory by the CMA;
- our significant indebtedness, our ability to meet our debt obligations, and our ability to incur substantially more debt;
- difficulties in successfully integrating the operations of acquired facilities, including those acquired in the Priory and CRC acquisitions, or realizing the potential benefits and synergies of our acquisitions;
- our ability to implement our business strategies in the United Kingdom and adapt to the regulatory and business environment in the United Kingdom;
- the impact of payments received from the government and third-party payors on our revenues and results of operations including the significant dependence of the Priory and Partnerships in Care facilities on payments received from the NHS;
- the occurrence of patient incidents, which could result in negative media coverage, adversely affect the price of our securities and result in incremental regulatory burdens and governmental investigations;
- our future cash flow and earnings;
- our restrictive covenants, which may restrict our business and financing activities;
- our ability to make payments on our financing arrangements;
- the impact of the economic and employment conditions in the United States and the United Kingdom on our business and future results of operations;
- compliance with laws and government regulations;
- the impact of claims brought against our facilities;
- the impact of governmental investigations, regulatory actions and whistleblower lawsuits;
- the impact of healthcare reform in the United States and abroad;
- the impact of our highly competitive industry on patient volumes;
- our ability to recruit and retain quality psychiatrists and other physicians;
- the impact of competition for staffing on our labor costs and profitability;
- our dependence on key management personnel, key executives and local facility management personnel;
- our acquisition strategy, which exposes us to a variety of operational and financial risks, as well as legal and regulatory risks (e.g., exposure to the new regulatory regimes such as the United Kingdom for Priory and Partnerships in Care and various investigations relating to CRC);
- the impact of state efforts to regulate the construction or expansion of healthcare facilities (including those from Priory, CRC and Partnerships in Care) on our ability to operate and expand our operations;
- our potential inability to extend leases at expiration;
- the impact of controls designed to reduce inpatient services on our revenues;
- the impact of different interpretations of accounting principles on our results of operations or financial condition;
- the impact of environmental, health and safety laws and regulations, especially in states where we have concentrated operations;
- the impact of an increase in uninsured and underinsured patients or the deterioration in the collectability of the accounts of such patients on our results of operations;
- the risk of a cyber-security incident and any resulting violation of laws and regulations regarding information privacy or other negative impact;
- the impact of laws and regulations relating to privacy and security of patient health information and standards for electronic transactions;
- the impact of a change in the mix of our earnings, and changes in tax rates and laws generally;
- failure to maintain effective internal control over financial reporting;
- the impact of fluctuations in our operating results, quarter to quarter earnings and other factors on the price of our securities;

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- the impact of the trend for insurance companies and managed care organizations to enter into sole source contracts on our ability to obtain patients;

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- the impact of fluctuations in foreign exchange rates; and
- those risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. These forward-looking statements are made only as of the date of this Annual Report on Form 10-K. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

**Overview**

Our business strategy is to acquire and develop behavioral healthcare facilities and improve our operating results within our facilities and our other behavioral healthcare operations. We strive to improve the operating results of our facilities by providing high-quality services, expanding referral networks and marketing initiatives while meeting the increased demand for behavioral healthcare services through expansion of our current locations as well as developing new services within existing locations. At December 31, 2015, we operated 258 behavioral healthcare facilities with over 9,900 beds in 39 states, the United Kingdom and Puerto Rico. During the year ended December 31, 2015, we acquired 176 facilities and added approximately 670 new beds, including 460 to existing facilities and 210 in two de novo facilities. For the year ending December 31, 2016, we expect to add approximately 800 total beds exclusive of acquisitions.

We are the leading publicly traded pure-play provider of behavioral healthcare services, with operations in the United States and the United Kingdom. Management believes that the Company's recent acquisitions position the Company as a leading platform in a highly fragmented industry under the direction of an experienced management team that has significant industry expertise. Management expects to take advantage of several strategies that are more accessible as a result of our increased size and geographic scale, including continuing a national marketing strategy to attract new patients and referral sources, increasing our volume of out-of-state referrals, providing a broader range of services to new and existing patients and clients and selectively pursuing opportunities to expand our facility and bed count.

**Acquisitions**

On February 16, 2016, we completed the acquisition of Priory for a total purchase price of approximately \$2.2 billion, including total cash consideration of approximately \$1.9 billion and 4,033,561 shares of our common stock. Priory is the leading independent provider of behavioral healthcare services in the United Kingdom. At December 31, 2015, Priory operated 327 facilities with approximately 7,100 beds.

On December 1, 2015, we completed the acquisition of certain facilities from MMO, including two acute inpatient behavioral health facilities with a total of 80 beds located in Jennings and Covington, Louisiana, for cash consideration of approximately \$20.2 million.

On November 1, 2015, we completed the acquisitions of (i) Discovery House for cash consideration of approximately \$118.5 million, (ii) Duffy's for cash consideration of approximately \$29.6 million and (iii) Cleveland House for approximately \$10.3 million. Discovery House operates 19 comprehensive treatment centers located in four states. Duffy's is a substance abuse facility with 61 beds located in Calistoga, California. Cleveland House is an inpatient psychiatric facility with 32 beds located in England.

On October 1, 2015, we completed the acquisition of Meadow View, an inpatient psychiatric facility with 28 beds located in England, for cash consideration of approximately \$6.8 million.

On September 1, 2015, we completed the acquisitions of (i) three facilities from Danshell for approximately \$59.8 million, (ii) two facilities from H&SCP for approximately \$26.2 million and (iii) Manor Hall for approximately \$14.0 million. The inpatient psychiatric facilities acquired from Danshell have an aggregate of 73 beds and are located in England. The inpatient psychiatric facilities acquired from H&SCP have an aggregate of 50 beds and are located in England. Manor Hall has 26 beds and is located in England.

On August 31, 2015, we completed the acquisition of a controlling interest in Southcoast, an inpatient psychiatric facility located in Fairhaven, Massachusetts. We own 75% of the equity interests in the facility.

On July 1, 2015, we completed the acquisition of the assets of Belmont, an inpatient psychiatric facility with 147 beds located in Philadelphia, Pennsylvania for cash consideration of approximately \$38.2 million which consists of \$35.0 million base purchase price and an estimated working capital settlement of \$3.2 million.



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On July 1, 2015, we completed the acquisition of The Manor Clinic, a substance abuse facility with 15 beds located in England, for cash consideration of approximately \$5.9 million.

On June 1, 2015, we completed the acquisitions of (i) one facility from Choice for approximately \$25.9 million and (ii) 15 facilities from Care UK for approximately \$88.2 million. The inpatient psychiatric facility acquired from Choice has 42 beds and is located in England. The inpatient psychiatric facilities acquired from Care UK have an aggregate of 299 beds and are located in England.

On April 1, 2015, we completed the acquisitions of (i) two facilities from Choice for approximately \$37.5 million, (ii) Pastoral for approximately \$34.2 million and (iii) Mildmay Oaks for approximately \$14.9 million. The two inpatient psychiatric facilities acquired from Choice have an aggregate of 48 beds and are located in England. Pastoral operates two inpatient psychiatric facilities with an aggregate of 65 beds located in Wales. Mildmay Oaks is an inpatient psychiatric facility with 67 beds located in England.

On March 1, 2015, we acquired the stock of QAM for total consideration of approximately \$54.8 million. QAM operates seven comprehensive treatment centers located in Wisconsin.

On February 11, 2015, we completed the acquisition of CRC for total consideration of approximately \$1.3 billion. As consideration for the acquisition, we issued 5,975,326 shares of our common stock to certain holders of CRC common stock and repaid CRC's outstanding indebtedness. CRC is a leading provider of treatment services related to substance abuse and other addiction and behavioral disorders. At the acquisition date, CRC operated 35 inpatient facilities with over 2,400 beds and 81 comprehensive treatment centers located in 30 states.

On December 31, 2014, we completed the acquisition of Skyway, a substance abuse facility with 28 beds located in Chico, California, for cash consideration of \$0.3 million. On December 1, 2014, we acquired the assets of Croxton, an inpatient psychiatric facility with 24 beds located in England, for cash consideration of \$15.6 million. On September 3, 2014, we completed the acquisition of McCallum, an eating disorder treatment facility with 85 beds offering residential, partial hospitalization and intensive outpatient treatment programs located in St. Louis, Missouri, and Austin, Texas, for total consideration of \$37.4 million. On July 1, 2014, we acquired Partnerships in Care for cash consideration of \$661.7 million, which was net of cash acquired of \$12.0 million and the gain on settlement of foreign currency derivatives of \$15.3 million. At the acquisition date, Partnerships in Care was the second largest independent provider of inpatient behavioral healthcare services in the United Kingdom, operating 23 inpatient behavioral healthcare facilities with over 1,200 beds. On January 1, 2014, we acquired the assets of Pacific Grove, an inpatient psychiatric facility with 68 beds located in Riverside, California, for cash consideration of \$10.5 million.

**Revenue**

Our revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and adolescent residential treatment. We receive payments from the following sources for services rendered in our facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by CMS; (iv) the NHS (including Local Authorities) in the United Kingdom; and (v) individual patients and clients. Revenue is recorded in the period in which services are provided at established billing rates less contractual adjustments based on amounts reimbursable by Medicare or Medicaid under provisions of cost or prospective reimbursement formulas or amounts due from other third-party payors at contractually determined rates.

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Table of Contents**Results of Operations**

The following table illustrates our consolidated results of operations from continuing operations for the respective periods shown (dollars in thousands):

|                                                        | Year Ended December 31, |        |             |        |           |        |
|--------------------------------------------------------|-------------------------|--------|-------------|--------|-----------|--------|
|                                                        | 2015                    |        | 2014        |        | 2013      |        |
|                                                        | Amount                  | %      | Amount      | %      | Amount    | %      |
| Revenue before provision for doubtful accounts         | \$1,829,619             |        | \$1,030,784 |        | \$735,109 |        |
| Provision for doubtful accounts                        | (35,127)                |        | (26,183)    |        | (21,701)  |        |
| Revenue                                                | 1,794,492               | 100.0% | 1,004,601   | 100.0% | 713,408   | 100.0% |
| Salaries, wages and benefits                           | 973,732                 | 54.3%  | 575,412     | 57.3%  | 407,962   | 57.2%  |
| Professional fees                                      | 116,463                 | 6.5%   | 52,482      | 5.2%   | 37,171    | 5.2%   |
| Supplies                                               | 80,663                  | 4.5%   | 48,422      | 4.8%   | 37,569    | 5.3%   |
| Rents and leases                                       | 32,528                  | 1.8%   | 12,201      | 1.2%   | 10,049    | 1.4%   |
| Other operating expenses                               | 206,746                 | 11.5%  | 110,654     | 11.0%  | 80,572    | 11.3%  |
| Depreciation and amortization                          | 63,550                  | 3.5%   | 32,667      | 3.2%   | 17,090    | 2.4%   |
| Interest expense, net                                  | 106,742                 | 6.0%   | 48,221      | 4.8%   | 37,250    | 5.2%   |
| Debt extinguishment costs                              | 10,818                  | 0.6%   | —           | —%     | 9,350     | 1.3%   |
| Loss (gain) on foreign currency derivatives            | 1,926                   | 0.1%   | (15,262)    | (1.5)% | —         | —%     |
| Transaction related expenses                           | 36,571                  | 2.0%   | 13,650      | 1.4%   | 7,150     | 1.0%   |
|                                                        | 1,629,739               | 90.8%  | 878,447     | 87.4%  | 644,163   | 90.3%  |
| Income from continuing operations, before income taxes | 164,753                 | 9.2%   | 126,154     | 12.6%  | 69,245    | 9.7%   |
| Provision for income taxes                             | 53,388                  | 3.0%   | 42,922      | 4.3%   | 25,975    | 3.6%   |
| Income from continuing operations                      | \$ 111,365              | 6.2%   | \$ 83,232   | 8.3%   | \$ 43,270 | 6.1%   |

**Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014**

**Revenue before provision for doubtful accounts.** Revenue before provision for doubtful accounts increased \$798.8 million, or 77.5%, to \$1.8 billion for the year ended December 31, 2015 from \$1.0 billion for the year ended December 31, 2014. The increase related primarily to revenue generated during the year ended December 31, 2015 from the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisition of CRC. Same-facility revenue before provision for doubtful accounts increased by \$78.9 million, or 7.8%, for the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily resulting from same-facility growth in patient days of 8.0%. Consistent with the same-facility patient day growth in 2014, the growth in same-facility patient days for the year ended December 31, 2015 compared to the year ended December 31, 2014 resulted from the addition of beds to our existing facilities and ongoing demand for our services.

**Provision for doubtful accounts.** The provision for doubtful accounts was \$35.1 million for the year ended December 31, 2015, or 1.9% of revenue before provision for doubtful accounts, compared to \$26.2 million for the year ended December 31, 2014, or 2.5% of revenue before provision for doubtful accounts. The same-facility provision for doubtful accounts was \$26.0 million for the year ended December 31, 2015, or 2.4% of revenue before provision for doubtful accounts, compared to \$25.6 million for the year ended December 31, 2014, or 2.5% of revenue before provision for doubtful accounts.

**Salaries, wages and benefits.** Salaries, wages and benefits ("SWB") expense was \$973.7 million for the year ended December 31, 2015 compared to \$575.4 million for the year ended December 31, 2014, an increase of \$398.3 million. SWB expense included \$20.5 million and \$10.1 million of equity-based compensation expense for the year ended December 31, 2015 and 2014, respectively. Excluding equity-based compensation expense, SWB expense was \$953.3 million, or 53.1% of revenue, for the year ended December 31, 2015, compared to \$565.4 million, or 56.3% of revenue, for the year ended December 31, 2014. The \$387.9 million increase in SWB expense, excluding equity-based compensation expense, was primarily attributable to SWB expense incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisition of CRC. Same-facility SWB expense was \$554.0 million for the year ended December 31, 2015, or 52.3% of revenue, compared to \$524.4 million for the year ended December 31, 2014, or 53.5% of revenue.



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**Professional fees.** Professional fees were \$116.5 million for the year ended December 31, 2015, or 6.5% of revenue, compared to \$52.5 million for the year ended December 31, 2014, or 5.2% of revenue. The \$64.0 million increase was primarily attributable to professional fees incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisition of CRC. Same-facility professional fees were \$55.1 million for the year ended December 31, 2015, or 5.2% of revenue, compared to \$46.2 million, for the year ended December 31, 2014, or 4.7% of revenue.

**Supplies.** Supplies expense was \$80.7 million for the year ended December 31, 2015, or 4.5% of revenue, compared to \$48.4 million for the year ended December 31, 2014, or 4.8% of revenue. The \$32.3 million increase was primarily attributable to supplies expense incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisition of CRC. Same-facility supplies expense was \$48.3 million for the year ended December 31, 2015, or 4.6% of revenue, compared to \$47.3 million for the year ended December 31, 2014, or 4.8% of revenue.

**Rents and leases.** Rents and leases were \$32.5 million for the year ended December 31, 2015, or 1.8% of revenue, compared to \$12.2 million for the year ended December 31, 2014, or 1.2% of revenue. The \$20.3 million increase was primarily attributable to rents and leases incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisition of CRC. Same-facility rents and leases were \$11.3 million for the year ended December 31, 2015, or 1.1% of revenue, compared to \$11.6 million for the year ended December 31, 2014, or 1.2% of revenue.

**Other operating expenses.** Other operating expenses consisted primarily of purchased services, utilities, insurance, travel and repairs and maintenance expenses. Other operating expenses were \$206.7 million for the year ended December 31, 2015, or 11.5% of revenue, compared to \$110.7 million for the year ended December 31, 2014, or 11.0% of revenue. The \$96.0 million increase was primarily attributable to other operating expenses incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisition of CRC. Same-facility other operating expenses were \$120.2 million for the year ended December 31, 2015, or 11.3% of revenue, compared to \$105.8 million for the year ended December 31, 2014, or 10.8% of revenue.

**Depreciation and amortization.** Depreciation and amortization expense was \$63.6 million for the year ended December 31, 2015, or 3.5% of revenue, compared to \$32.7 million for the year ended December 31, 2014, or 3.3% of revenue. The increase in depreciation and amortization was attributable to depreciation associated with capital expenditures during 2014 and 2015 and real estate acquired as part of the 2014 and 2015 Acquisitions.

**Interest expense.** Interest expense was \$106.7 million for the year ended December 31, 2015 compared to \$48.2 million for the year ended December 31, 2014. The increase in interest expense was primarily a result of borrowings under the Amended and Restated Senior Credit Facility and the issuance of the 5.625% Senior Notes on February 11, 2015 and September 21, 2015.

**Loss (gain) on foreign currency derivatives.** In connection with the acquisition in the United Kingdom, the Company entered into foreign currency forward contracts during the years ended December 31, 2015 and 2014 in order to fix the exchange rate applicable to the payment of the acquisition purchase prices. Exchange rate changes between the contract date and the settlement date resulted in a loss on foreign currency derivatives of \$1.9 million for the year ended December 31, 2015, compared to a gain of \$15.3 million for the year ended December 31, 2014.

**Debt extinguishment costs.** Debt extinguishment costs for the year ended December 31, 2015 represent \$7.5 million of cash charges and \$3.3 million of non-cash charges recorded in connection with the repayment of \$97.5 million of 12.875% Senior Notes.

**Transaction-related expenses.** Transaction-related expenses were \$36.6 million for the year ended December 31, 2015 compared to \$13.7 million for the year ended December 31, 2014. Transaction-related expenses represent costs incurred in the respective periods, primarily related to the 2014 and 2015 Acquisitions, as summarized below (in thousands):

|                                          | Year Ended December 31, |                  |
|------------------------------------------|-------------------------|------------------|
|                                          | 2015                    | 2014             |
| Advisory and financing commitment fees   | \$ 10,337               | \$ —             |
| Legal, accounting and other fees         | 17,768                  | 12,836           |
| Severance and contract termination costs | 8,466                   | 814              |
|                                          | <u>\$ 36,571</u>        | <u>\$ 13,650</u> |

**Provision for income taxes.** For the year ended December 31, 2015, the provision for income taxes was \$53.4 million, reflecting an effective tax rate of 32.4%, compared to \$42.9 million, reflecting an effective tax rate of 34.0%, for 2014. The decrease in the tax rate for the year ended December 31, 2015 was primarily attributable to a full year of results for Partnerships in Care in 2015, compared to six months in 2014. Partnerships in Care is located in a lower taxing jurisdiction and for which earnings are permanently reinvested.

Table of Contents***Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***

**Revenue before provision for doubtful accounts.** Revenue before provision for doubtful accounts increased \$295.7 million, or 40.2%, to \$1.0 billion for the year ended December 31, 2014 from \$735.1 million for the year ended December 31, 2013. The increase related primarily to revenue generated during the year ended December 31, 2014 from the facilities acquired in our 2013 and 2014 Acquisitions, particularly the acquisition of Partnerships in Care. Same-facility revenue before provision for doubtful accounts increased by \$79.1 million, or 10.8%, for the year ended December 31, 2014 compared to the year ended December 31, 2013, resulting from same-facility growth in patient days of 10.3% and same-facility revenue per day of 0.6%. Consistent with the same-facility patient day growth in 2013, the growth in same-facility patient days for the year ended December 31, 2014 compared to the year ended December 31, 2013 resulted from the addition of beds to our existing facilities and ongoing demand for our services.

**Provision for doubtful accounts.** The provision for doubtful accounts was \$26.2 million for the year ended December 31, 2014, or 2.5% of revenue before provision for doubtful accounts, compared to \$21.7 million for the year ended December 31, 2013, or 3.0% of revenue before provision for doubtful accounts. The same-facility provision for doubtful accounts was \$23.3 million for the year ended December 31, 2014, or 2.9% of revenue before provision for doubtful accounts, compared to \$21.7 million for the year ended December 31, 2013, or 3.0% of revenue before provision for doubtful accounts.

**Salaries, wages and benefits.** Salaries, wages and benefits ("SWB") expense was \$575.4 million for the year ended December 31, 2014 compared to \$408.0 million for the year ended December 31, 2013, an increase of \$167.4 million. SWB expense included \$10.1 million and \$5.2 million of equity-based compensation expense for the year ended December 31, 2014 and 2013, respectively. Excluding equity-based compensation expense, SWB expense was \$565.3 million, or 56.3% of revenue, for the year ended December 31, 2014, compared to \$402.8 million, or 56.4% of revenue, for the year ended December 31, 2013. The \$162.5 million increase in SWB expense, excluding equity-based compensation expense, was primarily attributable to SWB expense incurred by the facilities acquired in our 2013 and 2014 Acquisitions, particularly the acquisition of Partnerships in Care. Same-facility SWB expense was \$412.8 million for the year ended December 31, 2014, or 52.4% of revenue, compared to \$381.5 million for the year ended December 31, 2013, or 53.7% of revenue.

**Professional fees.** Professional fees were \$52.5 million for the year ended December 31, 2014, or 5.2% of revenue, compared to \$37.2 million for the year ended December 31, 2013, or 5.2% of revenue. The \$15.3 million increase was primarily attributable to professional fees incurred by the facilities acquired in our 2013 and 2014 Acquisitions, particularly the acquisition of Partnerships in Care. Same-facility professional fees were \$34.2 million for the year ended December 31, 2014, or 4.3% of revenue, compared to \$31.2 million, for the year ended December 31, 2013, or 4.4% of revenue.

**Supplies.** Supplies expense was \$48.4 million for the year ended December 31, 2014, or 4.8% of revenue, compared to \$37.6 million for the year ended December 31, 2013, or 5.3% of revenue. The \$10.8 million increase was primarily attributable to supplies expense incurred by the facilities acquired in our 2013 and 2014 Acquisitions, particularly the acquisition of Partnerships in Care. Same-facility supplies expense was \$39.5 million for the year ended December 31, 2014, or 5.0% of revenue, compared to \$37.4 million for the year ended December 31, 2013, or 5.3% of revenue.

**Rents and leases.** Rents and leases were \$12.2 million for the year ended December 31, 2014, or 1.2% of revenue, compared to \$10.0 million for the year ended December 31, 2013, or 1.4% of revenue. The \$2.2 million increase was primarily attributable to rents and leases incurred by the facilities acquired in our 2013 and 2014 Acquisitions. Same-facility rents and leases were \$10.0 million for the year ended December 31, 2014, or 1.3% of revenue, compared to \$9.8 million for the year ended December 31, 2013, or 1.4% of revenue.

**Other operating expenses.** Other operating expenses consisted primarily of purchased services, utilities, insurance, travel and repairs and maintenance expenses. Other operating expenses were \$110.7 million for the year ended December 31, 2014, or 11.0% of revenue, compared to \$80.6 million for the year ended December 31, 2013, or 11.3% of revenue. The \$30.1 million increase was primarily attributable to other operating expenses incurred by the facilities acquired in our 2013 and 2014 Acquisitions, particularly the acquisition of Partnerships in Care. Same-facility other operating expenses were \$86.3 million for the year ended December 31, 2014, or 11.0% of revenue, compared to \$78.2 million for the year ended December 31, 2013, or 11.0% of revenue.

**Depreciation and amortization.** Depreciation and amortization expense was \$32.7 million for the year ended December 31, 2014, or 3.7% of revenue, compared to \$17.1 million for the year ended December 31, 2013, or 2.4% of revenue. The increase in depreciation and amortization was attributable to depreciation associated with capital expenditures during 2013 and 2014 and real estate acquired as part of the 2013 and 2014 Acquisitions, particularly the acquisition of Partnerships in Care.

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**Interest expense.** Interest expense was \$48.2 million for the year ended December 31, 2014 compared to \$37.3 million for the year ended December 31, 2013. The increase in interest expense was primarily a result of the issuance of the 5.125% Senior Notes on July 1, 2014.

**Gain on foreign currency derivatives.** In connection with the acquisition of Partnerships in Care, the Company entered into foreign currency forward contracts in June 2014 in order to fix the exchange rate applicable to the payment of the purchase price on July 1, 2014. Exchange rate changes between the contract date and the settlement date resulted in a gain on foreign currency derivatives of \$15.3 million for the year ended December 31, 2014.

**Debt extinguishment costs.** Debt extinguishment costs for the year ended December 31, 2013 represent \$6.8 million of cash charges and \$2.6 million of non-cash charges recorded in connection with the redemption of \$52.5 million of the 12.875% Senior Notes.

**Transaction-related expenses.** Transaction-related expenses were \$13.7 million for the year ended December 31, 2014 compared to \$7.2 million for the year ended December 31, 2013. Transaction-related expenses represent costs incurred in the respective periods, primarily related to the 2013 and 2014 Acquisitions, as summarized below (in thousands):

|                                          | Year Ended December 31, |                 |
|------------------------------------------|-------------------------|-----------------|
|                                          | 2014                    | 2013            |
| Legal, accounting and other fees         | \$ 12,836               | \$ 5,535        |
| Severance and contract termination costs | 814                     | 1,615           |
|                                          | <u>\$ 13,650</u>        | <u>\$ 7,150</u> |

**Provision for income taxes.** For the year ended December 31, 2014, the provision for income taxes was \$42.9 million, reflecting an effective tax rate of 34.0%, compared to \$26.0 million, reflecting an effective tax rate of 37.5%, for 2013. The decrease in the tax rate for the year ended December 31, 2014 was primarily attributable to the acquisition of Partnerships in Care. Partnerships in Care is located in a lower taxing jurisdiction and for which earnings are permanently reinvested.

**Liquidity and Capital Resources**

Cash provided by continuing operating activities for the year ended December 31, 2015 was \$242.1 million compared to \$115.5 million for the year ended December 31, 2014. The increase in cash provided by continuing operating activities was primarily attributable to cash provided by continuing operating activities from the 2014 and 2015 Acquisitions and the growth in same-facility operations. Days sales outstanding as of December 31, 2015 was 40 compared to 37 as of December 31, 2014. As of December 31, 2015 and December 31, 2014, we had working capital of \$4.5 million and \$108.2 million, respectively.

Cash used in investing activities for the year ended December 31, 2015 was \$884.5 million compared to \$860.8 million for the year ended December 31, 2014. Cash used in investing activities for the year ended December 31, 2015 primarily consisted of \$574.8 million of cash paid for acquisitions. Cash paid for capital expenditures for the year ended December 31, 2015 was \$276.0 million, consisting of \$48.6 million of routine capital expenditures and \$227.4 million of expansion capital expenditures. We define expansion capital expenditures as those that increase the capacity of our facilities or otherwise enhance revenue. Routine or maintenance capital expenditures were approximately 3% of revenue for the year ended December 31, 2015. Cash paid for real estate acquisitions was \$26.6 million for the year ended December 31, 2015. Cash used in investing activities for the year ended December 31, 2014 primarily consisted of \$738.7 million of cash paid for acquisitions, \$113.2 million of cash paid for capital expenditures and \$23.2 million of cash paid for real estate acquisitions.

Cash provided by financing activities for the year ended December 31, 2015 was \$563.6 million compared to \$838.0 million for the year ended December 31, 2014. Cash provided by financing activities for the year ended December 31, 2015 primarily consisted of borrowings on long-term debt of \$1.2 billion, borrowings on our revolving credit facility of \$468.0 million, issuance of common stock of \$331.3 million and an excess tax benefit from equity awards of \$0.3 million, partially offset by repayment of assumed CRC debt of \$904.5 million, principal payments on our revolving credit facility of \$310.0 million, repayment of senior notes of \$97.5 million, principal payments on long-term debt of \$32.0 million, payment of debt issuance costs of \$26.4 million, payment of premium for purchase of senior notes of \$7.5 million and common stock withheld for minimum statutory taxes of \$7.8 million. All of our debt is denominated in U.S. dollars. Cash provided by financing activities for the year ended December 31, 2014 primarily consisted of borrowings on long-term debt instruments of \$542.5 million, borrowings on our revolving credit facility of \$230.5 million, \$374.4 million of proceeds from our issuance of common stock and an excess tax benefit from equity awards of \$4.6 million, partially offset by principal payments on our revolving credit facility of \$284.0 million, payment of debt issuance costs of \$13.0 million, principal payments on long-term debt of \$7.7 million, cash paid of \$5.0 million as contingent consideration for an acquisition based upon earnings of The Pavilion at HealthPark, LLC ("Park Royal") and common stock withheld for minimum statutory taxes of \$4.1 million.

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We had total available cash and cash equivalents of \$11.2 million, \$94.0 million and \$4.6 million as of December 31, 2015, 2014 and 2013, respectively, of which approximately \$9.2 million, \$17.4 million and \$3.3 million was held by our foreign subsidiaries, respectively. Our strategic plan does not require the repatriation of foreign cash in order to fund our operations in the U.S., and it is our current intention to permanently reinvest our foreign cash and cash equivalents outside of the U.S. If we were to repatriate foreign cash to the U.S., we would be required to accrue and pay U.S. taxes in accordance with applicable U.S. tax rules and regulations as a result of the repatriation.

***Amended and Restated Senior Credit Facility***

We entered into the Senior Secured Credit Facility on April 1, 2011. On December 31, 2012, we entered into the Amended and Restated Credit Agreement which amended and restated the Senior Secured Credit Facility.

On February 13, 2014, we entered into the Fourth Amendment to the Amended and Restated Credit Agreement, to increase the size of the Amended and Restated Senior Credit Facility and extend the maturity date thereof, which resulted in the Company having a revolving line of credit of up to \$300.0 million and term loans of \$300.0 million. The Fourth Amendment also reduced the interest rates applicable to the Amended and Restated Senior Credit Facility and provided increased flexibility to the Company in terms of the financial and other restrictive covenants. The Fourth Amendment also provides for a \$150.0 million incremental credit facility, with the potential for unlimited additional incremental amounts, provided the Company meets certain financial ratios, in each case subject to customary conditions precedent to borrowing.

On June 16, 2014, we entered into the Fifth Amendment to the Amended and Restated Senior Credit Facility. The Fifth Amendment specifically permitted the acquisition of Partnerships in Care, gave us the ability to incur a tranche of term loan B debt in the future through its incremental credit facility, and modified certain of the restrictive covenants on miscellaneous investments and incurrence of miscellaneous liens. Finally, the Fifth Amendment provided increased flexibility to the Company in terms of our financial covenants.

On December 15, 2014, we entered into a Sixth Amendment to our Amended and Restated Credit Agreement. Pursuant to the Sixth Amendment, we incurred \$235.0 million of additional term loans. A portion of the additional term loan advance was used to prepay our outstanding revolving loans, and a portion of the additional term loan advance was held as cash on our consolidated balance sheet. The Sixth Amendment also specifically permitted the acquisition of CRC. In connection with the acquisition of CRC, the Sixth Amendment (i) imposed a temporary reserve on our revolving credit facility in the amount of \$110.0 million in order to preserve such reserved amounts for later borrowings to partially fund the consideration for the acquisition of CRC (subject to limited conditionality provisions) (the reserve is no longer in effect due to the acquisition of CRC), (ii) permitted the incurrence of an additional incremental term loan facility under the Amended and Restated Credit Agreement partially to fund the consideration for the acquisition of CRC (subject to limited conditionality provisions) and (iii) permitted our issuance of additional senior unsecured indebtedness or senior unsecured bridge indebtedness partially to fund the consideration for the acquisition of CRC.

The Sixth Amendment also permits us, subject to certain consents, to add one or more foreign borrowers and/or request revolving loans and letters of credit in foreign currencies.

On February 6, 2015, we entered into the Seventh Amendment to our Amended and Restated Credit Agreement. The Seventh Amendment added Citibank, N.A. as an "L/C Issuer" under the Amended and Restated Credit Agreement in order to permit the rollover of CRC's existing letters of credit into the Amended and Restated Credit Agreement and increased both the Company's Letter of Credit Sublimit and Swing Line Sublimit to \$20.0 million.

On February 11, 2015, we entered into the First Incremental Amendment to our Amended and Restated Credit Agreement. The First Incremental Amendment activated a new \$500.0 million incremental Existing TLB Facility that was added to the Amended and Restated Senior Secured Credit Facility, subject to limited conditionality provisions. Borrowings under the Existing TLB Facility were used to fund a portion of the purchase price for our acquisition of CRC.

On April 22, 2015, we entered into an Eighth Amendment to our Amended and Restated Credit Agreement. The Eighth Amendment changed the definition of "Change of Control" in part to remove a provision whose purpose was, when calculating whether a majority of incumbent directors have approved new directors, that any incumbent director that became a director as a result of a threatened or actual proxy contest was not counted in such calculation.



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On January 25, 2016, we entered into the Ninth Amendment to the Amended and Restated Senior Credit Facility. The Ninth Amendment modifies certain definitions and provides increased flexibility to us in terms of our financial covenants. Our baskets for permitted investments were also increased to provide increased flexibility for us to invest in non-wholly owned subsidiaries, joint ventures and foreign subsidiaries. We may now invest in non-wholly owned subsidiaries and joint ventures up to 10.0% of our and our subsidiaries' total assets in any consecutive four fiscal quarter period, and up to 12.5% of our and our subsidiaries' total assets during the term of the Amended and Restated Credit Agreement. We may also invest in foreign subsidiaries that are not loan parties up to 10% of our and our subsidiaries' total assets in any consecutive four fiscal quarter period, and up to 15% of our and our subsidiaries' total assets during the term of the Amended and Restated Credit Agreement. The foregoing permitted investments are subject to an aggregate cap of 25% of our and our subsidiaries' total assets in any fiscal year.

On February 16, 2016, we entered into the Second Incremental Facility Amendment to our Amended and Restated Credit Agreement. The Second Incremental Amendment activated a new \$955.0 million incremental Term Loan B facility and added \$135.0 million to the Term Loan A facility to our Amended and Restated Senior Secured Credit Facility, subject to limited conditionality provisions. Borrowings under the New TLB Facility were used to fund a portion of the purchase price for the acquisition of Priory and the fees and expenses for such acquisition and the related financing transactions. Borrowings under the TLA Facility were used to pay down the majority of our \$300.0 million revolving credit facility.

We had \$135.7 million of availability under the revolving line of credit as of December 31, 2015. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our TLA Facility of \$10.0 million for March 31, 2016 to December 31, 2016, \$13.4 million for March 31, 2017 to December 31, 2017, and \$16.7 million for March 31, 2018 to December 31, 2018, with the remaining principal balance of the TLA Facility due on the maturity date of February 13, 2019. On December 15, 2014, prior to the execution of the Sixth Amendment, we prepaid the December 31, 2014 quarterly TLA Facility principal payment of \$1.9 million. We are required to repay the Existing TLB Facility in equal quarterly installments of \$1.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Existing TLB Facility due on February 11, 2022. We are required to repay the New TLB Facility in equal quarterly installments of approximately \$2.4 million on the last business day of each March, June, September and December, with the outstanding principal balance of the New TLB Facility due on February 16, 2023.

Borrowings under the Amended and Restated Credit Agreement are guaranteed by each of our wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of our and such subsidiaries' assets. Borrowings with respect to the TLA Facility and our revolving credit facility (collectively, "Pro Rata Facilities") under the Amended and Restated Credit Agreement bear interest at a rate tied to Acadia's Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$40.0 million of unrestricted and unencumbered cash to consolidated EBITDA, in each case as defined in the Amended and Restated Credit Agreement). The Applicable Rate (as defined in the Amended and Restated Credit Agreement) for the Pro Rata Facilities was 3.0% for Eurodollar Rate Loans (as defined in the Amended and Restated Credit Agreement) and 2.0% for Base Rate Loans (as defined in the Amended and Restated Credit Agreement) at December 31, 2015. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) (based upon the LIBOR Rate (as defined in the Amended and Restated Credit Agreement) prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As of December 31, 2015, the Pro Rata Facilities bore interest at a rate of LIBOR plus 3.0%. In addition, we are required to pay a commitment fee on undrawn amounts under our revolving credit facility.

The interest rates and the unused line fee on unused commitments related to the Pro Rata Facilities are based upon the following pricing tiers:

| Pricing Tier | Consolidated Leverage Ratio | Eurodollar Rate<br>Loans | Base Rate<br>Loans | Commitment<br>Fee |
|--------------|-----------------------------|--------------------------|--------------------|-------------------|
| 1            | <3.50:1.0                   | 2.25%                    | 1.25%              | 0.30%             |
| 2            | >3.50:1.0 but <4.00:1.0     | 2.50%                    | 1.50%              | 0.35%             |
| 3            | >4.00:1.0 but <4.50:1.0     | 2.75%                    | 1.75%              | 0.40%             |
| 4            | >4.50:1.0 but <5.25:1.0     | 3.00%                    | 2.00%              | 0.45%             |
| 5            | >5.25:1.0                   | 3.25%                    | 2.25%              | 0.50%             |

Eurodollar Rate Loans with respect to the Existing TLB Facility bear interest at the Existing TLB Applicable Rate (as defined below) plus the Eurodollar Rate (subject to a floor of 0.75% and based upon the LIBOR Rate prior to commencement of the interest rate period). Base Rate Loans bear interest at the Existing TLB Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term "Existing TLB Applicable Rate" means, with respect to Eurodollar Rate Loans, 3.50%, and with respect to Base Rate Loans, 2.50%. The New TLB Facility bears interest as

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follows: Eurodollar Rate Loans bear interest at the Applicable Rate (as defined in the Amended and Restated Credit Agreement) plus the Eurodollar Rate (subject to a floor of 0.75% and based upon the LIBOR Rate prior to commencement of the interest rate period) and Base Rate Loans bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term "Applicable Rate" means, with respect to Eurodollar Rate Loans, 3.75%, and with respect to Base Rate Loans, 2.75%.

The lenders who provided the Existing TLB Facility and New TLB Facility are not entitled to benefit from the Company's maintenance of its financial covenants under the Amended and Restated Credit Agreement. Accordingly, if we fail to maintain its financial covenants, such failure shall not constitute an event of default under the Amended and Restated Credit Agreement with respect to the Existing TLB Facility or the New TLB Facility until and unless the Amended and Restated Senior Credit Facility is accelerated or the commitment of the lenders to make further loans is terminated.

The Amended and Restated Credit Agreement requires us and our subsidiaries to comply with customary affirmative, negative and financial covenants, including a fixed charge coverage ratio, consolidated leverage ratio and consolidated senior secured leverage ratio. We may be required to pay all of our indebtedness immediately if we default on any of the numerous financial or other restrictive covenants contained in any of its material debt agreements. We may be required to pay all of our indebtedness immediately if we default on any of the numerous financial or other restrictive covenants contained in any of our material debt agreements. Set forth below is a brief description of such covenants, all of which are subject to customary exceptions, materiality thresholds and qualifications:

- a) the affirmative covenants include the following: (i) delivery of financial statements and other customary financial information; (ii) notices of events of default and other material events; (iii) maintenance of existence, ability to conduct business, properties, insurance and books and records; (iv) payment of taxes; (v) lender inspection rights; (vi) compliance with laws; (vii) use of proceeds; (viii) further assurances; and (ix) additional collateral and guarantor requirements.
- b) the negative covenants include limitations on the following: (i) liens; (ii) debt (including guaranties); (iii) investments; (iv) fundamental changes (including mergers, consolidations and liquidations); (v) dispositions; (vi) sale leasebacks; (vii) affiliate transactions; (viii) burdensome agreements; (ix) restricted payments; (x) use of proceeds; (xi) ownership of subsidiaries; (xii) changes to line of business; (xiii) changes to organizational documents, legal name, state of formation, form of entity and fiscal year; (xiv) prepayment or redemption of certain senior unsecured debt; and (xv) amendments to certain material agreements. The Company is generally not permitted to issue dividends or distributions other than with respect to the following: (w) certain tax distributions; (x) the repurchase of equity held by employees, officers or directors upon the occurrence of death, disability or termination subject to cap of \$500,000 in any fiscal year and compliance with certain other conditions; (y) in the form of capital stock; and (z) scheduled payments of deferred purchase price, working capital adjustments and similar payments pursuant to the merger agreement or any permitted acquisition.
- c) The financial covenants include maintenance of the following:
  - the fixed charge coverage ratio may not be less than 1.25:1.00 as of the end of any fiscal quarter;
  - the total leverage ratio may not be greater than the following levels as of the end of each fiscal quarter listed below:

|      | <u>March 31</u> | <u>June 30</u> | <u>September 30</u> | <u>December 31</u> |
|------|-----------------|----------------|---------------------|--------------------|
| 2015 | N/A             | N/A            | 6.50x               | 6.00x              |
| 2016 | 6.75x           | 6.75x          | 6.75x               | 6.25x              |
| 2017 | 6.00x           | 6.00x          | 6.00x               | 5.50x              |
| 2018 | 5.50x           | 5.50x          | 5.50x               | 5.00x              |

- the secured leverage ratio may not be greater than the following levels as of the end of each fiscal quarter listed below:

|                                                      |       |
|------------------------------------------------------|-------|
| December 31, 2015- September 30, 2016                | 3.75x |
| December 31, 2016 and each fiscal quarter thereafter | 3.50x |

As of December 31, 2015, the Company was in compliance with all of the above covenants.

**Table of Contents****Senior Notes****12.875% Senior Notes due 2018**

On November 1, 2011, we issued \$150.0 million of 12.875% Senior Notes due 2018 at 98.323% of the aggregate principal amount of \$150.0 million, a discount of \$2.5 million. The notes bear interest at a rate of 12.875% per annum. We pay interest on the notes semi-annually, in arrears, on November 1 and May 1 of each year.

On March 12, 2013, we redeemed \$52.5 million in principal amount of the 12.875% Senior Notes using a portion of the net proceeds of our December 2012 equity offering pursuant to the provision in the indenture permitting an optional redemption with equity proceeds of up to 35% of the principal amount of 12.875% Senior Notes. The 12.875% Senior Notes were redeemed at a redemption price of 112.875% of the principal amount thereof plus accrued and unpaid interest to, but not including, the redemption date in accordance with the provisions of the indenture governing the 12.875% Senior Notes. As part of the redemption of 35% of the 12.875% Senior Notes, we recorded a debt extinguishment charge of \$9.4 million, including the premium and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the accompanying consolidated statements of income.

On September 21, 2015, we purchased approximately \$88.3 million aggregate principal amount of 12.875% Senior Notes in connection with a tender offer for any and all of the 12.875% Senior Notes. The notes purchased represented 90.6% of the outstanding \$97.5 million principal amount of 12.875% Senior Notes. The 12.875% Senior Notes were purchased at a price of 107.875% of the principal amount thereof plus accrued and unpaid interest to, but not including, September 21, 2015. On September 18, 2015, we delivered a notice to redeem all \$9.2 million in principal amount of the 12.875% Senior Notes remaining outstanding following the consummation of the tender offer. The redemption was effective November 1, 2015 with payment made to the note holders on November 2, 2015. We redeemed the remaining 12.875% Senior Notes in accordance to their terms, and therefore no debt remains outstanding under the 12.875% Senior Notes. In connection with the purchase of notes, the Company recorded a debt extinguishment charge of approximately \$10.8 million for the year ended December 31, 2015, including the premium and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the accompanying consolidated statements of income.

**6.125% Senior Notes Due 2021**

On March 12, 2013, we issued \$150.0 million of 6.125% Senior Notes due 2021. The 6.125% Senior Notes mature on March 15, 2021 and bear interest at a rate of 6.125% per annum, payable semi-annually in arrears on March 15 and September 15 of each year.

**5.125% Senior Notes due 2022**

On July 1, 2014, we issued \$300.0 million of 5.125% Senior Notes due 2022. The 5.125% Senior Notes mature on July 1, 2022 and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2015.

**5.625% Senior Notes due 2023**

On February 11, 2015, we issued \$375.0 million of 5.625% Senior Notes due 2023. The 5.625% Senior Notes mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2015.

On September 21, 2015, we issued \$275.0 million of additional 5.625% Senior Notes. The additional notes form a single class of debt securities with the existing 5.625% Senior Notes. Giving effect to this issuance, we have outstanding an aggregate of \$650.0 million of 5.625% Senior Notes.

**6.500% Senior Notes due 2024**

On February 16, 2016, we issued \$390.0 million of 6.500% Senior Notes due 2024. The 6.500% Senior Notes mature on March 1, 2024 and bear interest at a rate of 6.500% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016.

The indentures governing the 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes and 6.500% Senior Notes (together, the "Senior Notes") contain covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets; and (vii) create liens on assets.

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The Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

The Company may redeem the Senior Notes at its option, in whole or part, at the dates and amounts set forth in the indentures.

**9.0% and 9.5% Revenue Bonds**

On November 11, 2012, in connection with the acquisition of Park Royal, we assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5%, respectively. The 9.0% bonds in the amount of \$7.5 million have a maturity date of December 1, 2030 and require yearly principal payments beginning in 2013. The 9.5% bonds in the amount of \$15.5 million have a maturity date of December 1, 2040 and require yearly principal payments beginning in 2031. The principal payments establish a bond-sinking fund to be held with the trustee and shall be sufficient to redeem the principal amounts of the 9.0% and 9.5% Revenue Bonds on their respective maturity dates. As of December 31, 2015 and 2014, \$2.3 million was recorded within other assets on the balance sheet related to the debt service reserve fund requirements. The yearly principal payments, which establish a bond sinking fund, will increase the debt service reserve fund requirements. The bond premium amount of \$2.6 million is amortized as a reduction of interest expense over the life of the 9.0% and 9.5% Revenue Bonds using the effective interest method.

**Contractual Obligations**

The following table presents a summary of contractual obligations (dollars in thousands):

|                                    | Payments Due by Period |                  |                  |                      | Total              |
|------------------------------------|------------------------|------------------|------------------|----------------------|--------------------|
|                                    | Less Than<br>1 Year    | 1-3 Years        | 3-5 Years        | More Than<br>5 Years |                    |
| Long-term debt (a)                 | \$238,137              | \$518,144        | \$766,811        | \$3,234,141          | \$4,757,233        |
| Operating leases                   | 29,229                 | 42,188           | 25,267           | 56,522               | 153,206            |
| Purchase and other obligations (b) | 1,848                  | 2,810            | 1,905            | 29,065               | 35,628             |
| Total obligations and commitments  | <u>\$269,214</u>       | <u>\$563,142</u> | <u>\$793,983</u> | <u>\$3,319,728</u>   | <u>\$4,946,067</u> |

- (a) Amounts include required principal and interest payments as of February 25, 2016, including the borrowings on February 16, 2016 in connection with the Priory acquisition of \$955.0 million under our New TLB facility, \$390.0 million of 6.500% Senior Notes and \$135.0 million under our TLA Facility. The projected interest payments reflect the interest rates in place on our variable-rate debt at December 31, 2015.
- (b) Amounts relate to purchase obligations, including capital lease payments.

**Off-Balance Sheet Arrangements**

As of December 31, 2015, we had standby letters of credit outstanding of \$6.3 million related to security for the payment of claims as required by our workers' compensation insurance program.

**Market Risk**

Our interest expense is sensitive to changes in market interest rates. With respect to our interest-bearing liabilities, our long-term debt outstanding at December 31, 2015 was composed of \$1.1 billion of fixed-rate debt and \$1.1 billion of variable-rate debt with interest based on LIBOR plus an applicable margin. A hypothetical 10% increase in interest rates would decrease our net income and cash flows by \$3.3 million on an annual basis based upon our borrowing level at December 31, 2015.

The functional currency for our U.K. facilities is the British pound ("GBP"). Our revenue and earnings are sensitive to changes in the GBP to USD exchange rate. As a result, our future earnings could be affected by fluctuations in the exchange rate between the U.S. dollar and GBPs. Based upon the level of our U.K. operations relative to the Company as a whole, a hypothetical 10% change in this exchange rate would cause a change in our net income of \$5.6 million for the year ended December 31, 2015.

**Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. In preparing our financial statements, we are required to make estimates and assumptions that affect the reported



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amounts of assets, liabilities, revenues, and expenses included in the financial statements. Estimates are based on historical experience and other available information, the results of which form the basis of such estimates. While management believes our estimation processes are reasonable, actual results could differ from our estimates. The following accounting policies are considered critical to the portrayal of our financial condition and operating performance and involve highly subjective and complex assumptions and assessments:

**Revenue and Accounts Receivable**

Our revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and adolescent residential treatment. We receive payments from the following sources for services rendered in our facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by CMS; (iv) the NHS (including Local Authorities) in the United Kingdom; and (v) individual patients and clients. Revenue is recorded in the period in which services are provided at established billing rates less contractual adjustments based on amounts reimbursable by Medicare or Medicaid under provisions of cost or prospective reimbursement formulas or amounts due from other third-party payors at contractually determined rates.

The following table presents revenue by payor type and as a percentage of revenue before provision for doubtful accounts for the years ended December 31, 2015, 2014 and 2013 (in thousands):

|                                                | Year Ended December 31, |        |                    |        |                  |        |
|------------------------------------------------|-------------------------|--------|--------------------|--------|------------------|--------|
|                                                | 2015                    |        | 2014               |        | 2013             |        |
|                                                | Amount                  | %      | Amount             | %      | Amount           | %      |
| Commercial                                     | \$ 423,077              | 23.1%  | \$ 237,041         | 23.0%  | \$182,915        | 24.9%  |
| Medicare                                       | 214,125                 | 11.7%  | 200,306            | 19.4%  | 158,111          | 21.5%  |
| Medicaid                                       | 609,805                 | 33.3%  | 395,146            | 38.3%  | 353,145          | 48.0%  |
| NHS                                            | 356,965                 | 19.5%  | 149,156            | 14.5%  | —                | — %    |
| Self-Pay                                       | 174,850                 | 9.6%   | 25,166             | 2.5%   | 25,153           | 3.4%   |
| Other                                          | 50,797                  | 2.8%   | 23,969             | 2.3%   | 15,785           | 2.2%   |
| Revenue before provision for doubtful accounts | 1,829,619               | 100.0% | 1,030,784          | 100.0% | 735,109          | 100.0% |
| Provision for doubtful accounts                | (35,127)                |        | (26,183)           |        | (21,701)         |        |
| Revenue                                        | <u>\$1,794,492</u>      |        | <u>\$1,004,601</u> |        | <u>\$713,408</u> |        |

The following tables present a summary of our aging of accounts receivable as of December 31, 2015 and 2014:

**December 31, 2015**

|            | Current | 30-90 | 90-150 | >150  | Total  |
|------------|---------|-------|--------|-------|--------|
| Commercial | 16.6%   | 9.1%  | 3.2%   | 3.0%  | 31.9%  |
| Medicare   | 12.6%   | 2.3%  | 1.2%   | 0.4%  | 16.5%  |
| Medicaid   | 23.4%   | 6.7%  | 2.8%   | 4.2%  | 37.1%  |
| NHS        | 1.6%    | 3.1%  | 0.5%   | — %   | 5.2%   |
| Self-Pay   | 1.7%    | 1.8%  | 2.0%   | 3.0%  | 8.5%   |
| Other      | 0.5%    | 0.1%  | 0.1%   | 0.1%  | 0.8%   |
| Total      | 56.4%   | 23.1% | 9.8%   | 10.7% | 100.0% |

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December 31, 2014

|            | Current | 30-90 | 90-150 | >150  | Total  |
|------------|---------|-------|--------|-------|--------|
| Commercial | 14.5%   | 6.7%  | 2.6%   | 3.1%  | 26.9%  |
| Medicare   | 15.8%   | 3.4%  | 1.7%   | 3.7%  | 24.6%  |
| Medicaid   | 22.2%   | 4.9%  | 2.3%   | 2.8%  | 32.2%  |
| NHS        | 2.1%    | 1.8%  | 0.1%   | —%    | 4.0%   |
| Self-Pay   | 1.1%    | 1.8%  | 2.2%   | 6.2%  | 11.3%  |
| Other      | 0.3%    | 0.2%  | 0.2%   | 0.3%  | 1.0%   |
| Total      | 56.0%   | 18.8% | 9.1%   | 16.1% | 100.0% |

Medicaid accounts receivable as of December 31, 2015 and 2014 included approximately \$1.1 million and \$0.6 million, respectively, of accounts pending Medicaid approval.

*Allowance for Contractual Discounts*

We derive a significant portion of our revenues from Medicare, Medicaid and other payors that receive discounts from established billing rates. The Medicare and Medicaid regulations and various managed care contracts under which these discounts must be calculated are complex, subject to interpretation and adjustment, and may include multiple reimbursement mechanisms for different types of services provided in our inpatient facilities and cost settlement provisions. Management estimates the allowance for contractual discounts on a payor-specific basis given its interpretation of the applicable regulations or contract terms. The services authorized and provided and related reimbursement are often subject to interpretation that could result in payments that differ from our estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management.

Settlements under cost reimbursement agreements with third-party payors are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occurs in subsequent years because of audits by such programs, rights of appeal and the application of numerous technical provisions. In the opinion of management, adequate provision has been made for any adjustments and final settlements. However, there can be no assurance that any such adjustments and final settlements will not have a material effect on our financial condition or results of operations. Our cost report receivables were \$4.2 million and \$1.9 million at December 31, 2015 and 2014, respectively, and were included in other current assets in the consolidated balance sheets. Management believes that these receivables are properly stated and are not likely to be settled for a significantly different amount. The net adjustments to estimated cost report settlements resulted in increases to revenue of \$1.9 million, \$0.3 million and \$0.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Management believes that we are in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

*Allowance for Doubtful Accounts*

Our ability to collect outstanding patient receivables from third party payors is critical to our operating performance and cash flows. The primary collection risk with regard to patient receivables relates to uninsured patient accounts or patient accounts for which primary insurance has paid, but the portion owed by the patient remains outstanding. We estimate uncollectible accounts and establish an allowance for doubtful accounts in order to adjust accounts receivable to estimated net realizable value. In evaluating the collectability of accounts receivable, we consider a number of factors, including the age of the accounts, historical collection experience, current economic conditions, and other relevant factors. Accounts receivable that are determined to be uncollectible based on our policies are written off to the allowance for doubtful accounts. Significant changes in payor mix or business office operations could have a significant impact on our results of operations and cash flows.

*Insurance*

We are subject to medical malpractice and other lawsuits due to the nature of the services we provide. Our operations have professional and general liability insurance for claims in excess of a \$1,000,000 self-insured retention with an insured excess limit of \$50 million. The reserve for professional and general liability risks was estimated based on historical claims, demographic factors, industry trends, severity factors, and other actuarial assumptions. The estimated accrual for professional and general liabilities could be significantly affected should current and future occurrences differ from historical claim trends and expectations. While claims are monitored closely when estimating professional and general liability accruals, the complexity of the claims and wide range of potential outcomes often hampers timely adjustments to the assumptions used in these estimates. The professional and general liability

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reserve was \$41.9 million as of December 31, 2015, of which \$10.5 million was included in other accrued liabilities and \$31.4 million was included in other long-term liabilities. The professional and general liability reserve was \$16.3 million as of December 31, 2014, of which \$4.2 million was included in other accrued liabilities and \$12.1 million was included in other long-term liabilities. We estimate receivables for the portion of professional and general liability reserves that are recoverable under our insurance policies. Such receivable was \$21.3 million as of December 31, 2015, of which \$5.3 million was included in other current assets and \$16.0 million was included in other assets, and such receivable was \$12.0 million as of December 31, 2014, of which \$3.5 million was included in other current assets and \$8.5 million was included in other assets.

Our statutory workers' compensation program is fully insured with a \$500,000 deductible per accident. The workers' compensation liability was \$14.7 million as of December 31, 2015, of which \$7.5 million was included in accrued salaries and benefits and \$7.2 million was included in other long-term liabilities, and such liability was \$8.4 million as of December 31, 2014, of which \$4.8 million was included in accrued salaries and benefits and \$3.6 million was included in other long-term liabilities. The reserve for workers compensation claims was based upon independent actuarial estimates of future amounts that will be paid to claimants. Management believes that adequate provisions have been made for workers' compensation and professional and general liability risk exposures.

***Property and Equipment and Other Long-Lived Assets***

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets, which typically range from 10 to 50 years for buildings and improvements, three to seven years for equipment and the shorter of the lease term or estimated useful lives for leasehold improvements. When assets are sold or retired, the corresponding cost and accumulated depreciation are removed from the related accounts and any gain or loss is recorded in the period of sale or retirement. Repair and maintenance costs are expensed as incurred. Depreciation expense was \$63.0 million, \$32.1 million and \$16.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The carrying values of long-lived assets are reviewed for possible impairment whenever events, circumstances or operating results indicate that the carrying amount of an asset may not be recoverable. If this review indicates that the asset will not be recoverable, as determined based upon the undiscounted cash flows of the operating asset over the remaining useful lives, the carrying value of the asset will be reduced to its estimated fair value. Fair value estimates are based on independent appraisals, market values of comparable assets or internal evaluations of future net cash flows.

***Goodwill and Indefinite-Lived Intangible Assets***

Our goodwill and other indefinite-lived intangible assets, which consist of licenses and accreditations and certificates of need intangible assets that are not amortized, are evaluated for impairment annually during the fourth quarter or more frequently if events indicate that the carrying value of a reporting unit may not be recoverable. We have two operating segments, U.S. Facilities and U.K. Facilities, for segment reporting purposes, each of which represents a reporting unit for purposes of the Company's goodwill impairment test. Potential impairment is noted for a reporting unit if its carrying value exceeds the fair value of the reporting unit. For a reporting unit with potential impairment of goodwill, we determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, an impairment loss is recorded. Our annual impairment tests of goodwill and other indefinite-lived intangibles in 2015, 2014 and 2013 resulted in no impairment charges.

***Income Taxes***

We use the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and net operating loss and tax credit carry forwards. The amount of deferred taxes on these temporary differences is determined using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, as applicable, based on tax rates and laws in the respective tax jurisdiction enacted as of the balance sheet date.

We review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, applicable tax strategies, and the expected timing of the reversals of existing temporary differences. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

We also have accruals for taxes and associated interest that may become payable in future years as a result of audits by tax authorities. We accrue for tax contingencies when it is more likely than not that a liability to a taxing authority has been incurred and the amount of the contingency can be reasonably estimated. Although we believe that the positions taken on previously filed tax

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returns are reasonable, we nevertheless have established tax and interest reserves in recognition that various taxing authorities may challenge the positions taken by us resulting in additional liabilities for taxes and interest. These amounts are reviewed as circumstances warrant and adjusted as events occur that affect our potential liability for additional taxes, such as lapsing of applicable statutes of limitations, conclusion of tax audits, additional exposure based on current calculations, identification of new issues, release of administrative guidance, or rendering of a court decision affecting a particular tax issue.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Information with respect to this Item is provided under the caption "Market Risk" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Item 8. Financial Statements and Supplementary Data.**

Information with respect to this Item is contained in our consolidated financial statements beginning on Page F-1 of this Annual Report on Form 10-K.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.****Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, our management conducted an evaluation, with the participation of our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Reports on Internal Control Over Financial Reporting**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have included a report of management's assessment of the design and operating effectiveness of our internal controls as part of this report. Our independent registered public accounting firm also reported on the effectiveness of internal control over financial reporting. Management's report and the independent registered public accounting firm's report are included in our consolidated financial statements beginning on page F-1 of this report under the captions entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm."

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the fourth quarter ended December 31, 2015 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**Item 9B. Other Information.**

None.

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The information with respect to our directors set forth under the caption "Election of Directors" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2016 is incorporated herein by reference.

**Audit Committee**

The information with respect to our Audit Committee and our audit committee financial experts serving on the Audit Committee is set forth under the caption "Corporate Governance – Committees of the Board of Directors – Audit Committee" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2016 is incorporated herein by reference.

**Executive Officers**

The information with respect to our executive officers set forth under the caption "Management – Executive Officers" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2016 is incorporated herein by reference.

**Section 16(a) Compliance**

The information with respect to compliance with Section 16(a) of the Exchange Act set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2016 is incorporated herein by reference.

**Stockholder Nominees**

The information with respect to the procedures by which stockholders may recommend nominees to the Board of Directors set forth under the caption "Corporate Governance – Nomination of Directors – Nominations by Our Stockholders" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2016 is incorporated herein by reference.

**Corporate Governance Documents**

We have adopted a Code of Conduct that applies to all of our directors, officers and employees and a Code of Ethics for Senior Financial Officers. These documents, as well as the charters of the Audit Committee and the Compensation Committee, are available on our website at [www.acadiahealthcare.com](http://www.acadiahealthcare.com) on the Investors webpage under the caption "Corporate Governance." Upon the written request of any person, we will furnish, without charge, a copy of any of these documents. Requests should be directed to Acadia Healthcare Company, Inc., 6100 Tower Circle, Suite 1000, Franklin, Tennessee 37067, Attention: Christopher L. Howard, Esq. We intend to disclose any amendments to our Code of Ethics and any waiver from a provision of our code, as required by the SEC, on our website.

**Item 11. Executive Compensation**

The information with respect to the compensation of our executive officers set forth under the captions "Executive Compensation," "Compensation Discussion and Analysis," "Director Compensation" and "Compensation Committee Report" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2016 is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information with respect to security ownership of certain beneficial owners and management and related stockholder matters set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2016 is incorporated herein by reference.

The information with respect to securities authorized for issuance under equity compensation plans set forth under the caption "Securities Authorized for Issuance Under Equity Compensation Plans" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2016 is incorporated herein by reference.

**Table of Contents****Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information with respect to certain relationships and related transactions and director independence set forth under the captions "Certain Relationships and Related Transactions" and "Corporate Governance – Independence of the Board of Directors" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2016 is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

The information with respect to the fees paid to and services provided by our principal accountants set forth under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2016 is incorporated herein by reference.



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## PART IV

**Item 15. Exhibits and Financial Statement Schedules.**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. *Consolidated Financial Statements:*

The consolidated financial statements required to be included in Part II, Item 8, Financial Statements and Supplementary Data, begin on Page F-1 and are submitted as a separate section of this report.

2. *Financial Statement Schedules:*

All schedules are omitted because they are not applicable or are not required, or because the required information is included in the consolidated financial statements or notes in this report.

3. *Exhibits:*

| <u>Exhibit No.</u> | <u>Exhibit Description</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1                | Agreement and Plan of Merger, dated May 23, 2011, by and among Acadia Healthcare Company, Inc. (the "Company"), Acadia Merger Sub, LLC and PHC, Inc. (a)                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 2.2                | Agreement and Plan of Merger, dated February 17, 2011, by and among the Company (f/k/a Acadia Healthcare Company, LLC), Acadia—YFCS Acquisition Company, Inc., Acadia—YFCS Holdings, Inc., Youth & Family Centered Services, Inc., each of the stockholders who are signatories thereto, and TA Associates, Inc., solely in the capacity as Stockholders' Representative. (b)                                                                                                                                                                                                |
| 2.3                | Asset Purchase Agreement, dated as of March 15, 2011, between Universal Health Services, Inc. and PHC, Inc. for the acquisition of MeadowWood Behavioral Health System. (c)                                                                                                                                                                                                                                                                                                                                                                                                  |
| 2.4                | Membership Interest Purchase Agreement, dated December 30, 2011, by and among Hermitage Behavioral, LLC, Haven Behavioral Healthcare Holdings, LLC and Haven Behavioral Healthcare, Inc. (d)                                                                                                                                                                                                                                                                                                                                                                                 |
| 2.5                | Asset Purchase Agreement, dated August 28, 2012, by and between Timberline Knolls, LLC, and TK Behavioral, LLC. (e)                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 2.6                | Acquisition Agreement, dated November 21, 2012, by and among (i) Behavioral Centers of America, LLC, (ii) Behavioral Centers of America Holdings, LLC, (iii) Linden BCA Blocker Corp., (iv) SBOF-BCA Holdings Corporation, (v) HEP BCA Holdings Corp. (vi) Siguler Guff Small Buyout Opportunities Fund, LP, and Siguler Guff Small Buyout Opportunities Fund (F), LP, (vii) Health Enterprise Partners, L.P., HEP BCA Co-Investors, LLC, (viii) Linden Capital Partners A, LP, (ix) Commodore Acquisition Sub, LLC, and (x) the Company (the "BCA Purchase Agreement"). (f) |
| 2.7                | Amendment No. 1, dated as of December 31, 2012, to the BCA Purchase Agreement. (g)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 2.8                | Membership Interest Purchase Agreement, dated November 23, 2012 by and among 2C4K, L.P., ARTC Acquisitions, Inc., Acadia Vista, LLC and the Company. (f)                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 2.9                | Amendment, dated as of December 31, 2012, to Membership Interest Purchase Agreement by and among 2C4K, LP, ARTC Acquisitions, Inc., Acadia Vista, LLC and the Company. (g)                                                                                                                                                                                                                                                                                                                                                                                                   |
| 2.10               | Stock Purchase Agreement, dated as of March 29, 2013, by and among First Ten Broeck Tampa, Inc., UMC Ten Broeck, Inc., Capestrano Holding 12, Inc., Donald R. Dizney, David A. Dizney and Acadia Merger Sub, LLC. (h)                                                                                                                                                                                                                                                                                                                                                        |
| 2.11               | Agreement, dated June 3, 2014, by and among Partnerships in Care Holdings Limited, The Royal Bank of Scotland plc, Piper Holdco 2, Ltd. and the Company. (i)                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 2.12               | Agreement and Plan of Merger, dated as of October 29, 2014, by and among the Company, Copper Acquisition Co., Inc. and CRC Health Group, Inc. (j)                                                                                                                                                                                                                                                                                                                                                                                                                            |

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| <u>Exhibit No.</u> | <u>Exhibit Description</u>                                                                                                                                                                                                                   |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.13               | Sale and Purchase Deed, dated as of December 31, 2015, by and among Whitewell UK Investments I Limited, the institutional sellers named therein, Appleby Trust (Jersey) Limited, the management sellers named therein, and the Company. (ii) |
| 2.14               | Amendment to Sale the Purchase Deed by and among Whitewell UK Investments I Limited, the representative of the institutional sellers named therein, the representative of the management sellers named therein, and the Company. (jj)        |
| 3.1                | Amended and Restated Certificate of Incorporation, as filed on October 28, 2011 with the Secretary of State of the State of Delaware. (k)                                                                                                    |
| 3.2                | Amended and Restated Bylaws of the Company. (k)                                                                                                                                                                                              |
| 4.1                | Indenture, dated as of March 12, 2013, among the Company, the guarantors named therein and U.S. Bank National Association, as Trustee. (m)                                                                                                   |
| 4.2                | Form of 6.125% Senior Note due 2021. (Included in Exhibit 4.1)                                                                                                                                                                               |
| 4.3                | Registration Rights Agreement, dated March 12, 2013, among the Company, the guarantors named therein and Merrill Lynch, Pierce, Fenner & Smith Incorporated. (m)                                                                             |
| 4.4                | Indenture, dated July 1, 2014, by and among the Company, the guarantors party thereto and U.S. Bank National Association, as Trustee. (n)                                                                                                    |
| 4.5                | Supplemental Indenture, dated as of August 4, 2014, to the Indenture, dated as of July 1, 2014, among the Company, the guarantors named therein and U.S. Bank National Association, as Trustee. (o)                                          |
| 4.6                | Form of 5.125% Senior Note due 2022 (Included in Exhibit 4.4).                                                                                                                                                                               |
| 4.7                | Registration Rights Agreement, dated July 1, 2014, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (n)        |
| 4.8                | Indenture, dated February 11, 2015, by and among the Company, the guarantors party thereto and U.S. Bank National Association, as Trustee. (p)                                                                                               |
| 4.9                | Form of 5.625% Senior Note due 2023 (Included in Exhibit 4.8).                                                                                                                                                                               |
| 4.10               | Registration Rights Agreement, dated February 11, 2015, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (p)   |
| 4.11               | Registration Rights Agreement, dated September 21, 2015, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (hh) |
| 4.12               | Indenture, dated February 16, 2016, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (mm)                      |
| 4.13               | Form of 6.500% Senior Note due 2024 (Included in Exhibit 4.12).                                                                                                                                                                              |
| 4.14               | Registration Rights Agreement, dated February 16, 2016, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (mm)  |
| 4.15               | Amended and Restated Stockholders Agreement, dated as of October 29, 2014, by and among the Company and each of the stockholders named therein. (j)                                                                                          |



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| <u>Exhibit No.</u> | <u>Exhibit Description</u>                                                                                                                                                                                                                                                                                                                                  |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.16               | Specimen Acadia Healthcare Company, Inc. Common Stock Certificate to be issued to holders of Acadia Healthcare Company, Inc. Common Stock. (r)                                                                                                                                                                                                              |
| 4.17               | Second Amended and Restated Registration Rights Agreement, dated as of October 29, 2014, by and among the Company and each of the parties named therein. (j)                                                                                                                                                                                                |
| 4.18               | Amendment, dated February 11, 2015, to the Second Amended and Restated Registration Rights Agreement dated as of October 29, 2014, by and among the Company and each of the parties named therein. (p)                                                                                                                                                      |
| 4.19               | Third Amended and Restated Registration Rights Agreement, dated as of December 31, 2015, by and among the Company and each of the parties named therein. (ii)                                                                                                                                                                                               |
| 4.20               | Form of Subscription Agreement and Warrant. (s)                                                                                                                                                                                                                                                                                                             |
| 10.1               | Amended and Restated Credit Agreement, dated December 31, 2012, by and among Bank of America, NA (Administrative Agent, Swing Line Lender and L/C Issuer) and the Company (f/k/a Acadia Healthcare Company, LLC), the guarantors listed on the signature pages thereto, and the lenders listed on the signature pages thereto (the "Credit Agreement"). (g) |
| 10.2               | First Amendment, dated March 11, 2013, to the Credit Agreement. (m)                                                                                                                                                                                                                                                                                         |
| 10.3               | Second Amendment, dated June 28, 2013, to the Credit Agreement. (t)                                                                                                                                                                                                                                                                                         |
| 10.4               | Third Amendment, dated September 30, 2013, to the Credit Agreement. (u)                                                                                                                                                                                                                                                                                     |
| 10.5               | Fourth Amendment, dated February 13, 2014, to the Credit Agreement. (v)                                                                                                                                                                                                                                                                                     |
| 10.6               | Fifth Amendment, dated June 16, 2014, to the Credit Agreement. (w)                                                                                                                                                                                                                                                                                          |
| 10.7               | Sixth Amendment, dated December 15, 2014, to the Credit Agreement. (x)                                                                                                                                                                                                                                                                                      |
| 10.8               | Seventh Amendment, dated February 6, 2015, to the Credit Agreement. (p)                                                                                                                                                                                                                                                                                     |
| 10.9               | First Incremental Facility Amendment, dated February 11, 2015, to the Credit Agreement. (p)                                                                                                                                                                                                                                                                 |
| 10.10              | Eighth Amendment, dated April 22, 2015, to the Credit Agreement. (ff)                                                                                                                                                                                                                                                                                       |
| 10.11              | Ninth Amendment, dated January 25, 2016, to the Credit Agreement. (kk)                                                                                                                                                                                                                                                                                      |
| 10.12              | Second Incremental Facility Amendment, dated February 16, 2016, to the Credit Agreement. (mm)                                                                                                                                                                                                                                                               |
| †10.13             | Amended and Restated Employment Agreement, dated April 7, 2014, among the Company, Acadia Management Company, Inc. and Joey A. Jacobs. (y)                                                                                                                                                                                                                  |
| †10.14             | Amended and Restated Employment Agreement, dated April 7, 2014, among the Company, Acadia Management Company, Inc. and Brent Turner. (y)                                                                                                                                                                                                                    |
| †10.15             | Amended and Restated Employment Agreement, dated April 7, 2014, among the Company, Acadia Management Company, Inc. and Ronald M. Fincher. (y)                                                                                                                                                                                                               |
| †10.16             | Amended and Restated Employment Agreement, dated April 7, 2014, among the Company, Acadia Management Company, Inc. and Christopher L. Howard. (y)                                                                                                                                                                                                           |
| †10.17             | Employment Agreement, dated April 7, 2014, by and among the Company, Acadia Management Company, Inc. and David M. Duckworth. (y)                                                                                                                                                                                                                            |

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| <u>Exhibit No.</u> | <u>Exhibit Description</u>                                                                                                                                                                                                     |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| †10.18             | Employment Agreement, dated as of May 23, 2011, by and between the Company and Bruce A. Shear. (b)                                                                                                                             |
| †10.19             | PHC, Inc.'s 1993 Stock Purchase and Option Plan, as amended December 2002. (z)                                                                                                                                                 |
| †10.20             | PHC, Inc.'s 1995 Non-Employee Director Stock Option Plan, as amended December 2002. (z)                                                                                                                                        |
| †10.21             | PHC, Inc.'s 1995 Employee Stock Purchase Plan, as amended December 2002. (z)                                                                                                                                                   |
| †10.22             | PHC, Inc.'s 2004 Non-Employee Director Stock Option Plan. (aa)                                                                                                                                                                 |
| †10.23             | PHC, Inc.'s 2005 Employee Stock Purchase Plan. (bb)                                                                                                                                                                            |
| †10.24             | PHC, Inc.'s 2003 Stock Purchase and Option Plan, as amended December 2007. (bb)                                                                                                                                                |
| †10.25             | Acadia Healthcare Company, Inc. Incentive Compensation Plan, effective May 23, 2013. (cc)                                                                                                                                      |
| †10.26             | Form of Restricted Stock Unit Agreement. (b)                                                                                                                                                                                   |
| †10.27             | Form of Incentive Stock Option Agreement. (b)                                                                                                                                                                                  |
| †10.28             | Form of Non-Qualified Stock Option Agreement. (b)                                                                                                                                                                              |
| †10.29             | Form of Restricted Stock Agreement. (b)                                                                                                                                                                                        |
| †10.30             | Form of Stock Appreciation Rights Agreement. (b)                                                                                                                                                                               |
| †10.31             | Acadia Healthcare Company, Inc. Nonqualified Deferred Compensation Plan, effective February 1, 2013. (dd)                                                                                                                      |
| †10.32             | Nonmanagement Director Compensation Program, effective January 1, 2013. (dd)                                                                                                                                                   |
| 10.33              | Form of Indemnification Agreement (for directors and officers affiliated with Waud Capital Partners or Bain Capital). (k)                                                                                                      |
| 10.34              | Form of Indemnification Agreement (for directors and officers not affiliated with Waud Capital Partners or Bain Capital). (k)                                                                                                  |
| 10.35              | Purchase Agreement, dated March 7, 2013, by and among the Company, the guarantors and Merrill Lynch, Pierce, Fenner & Smith Incorporated as representative of the initial purchasers named therein. (m)                        |
| 10.36              | Purchase Agreement, dated June 17, 2014, by and among the Company, the guarantors, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC as representatives of the initial purchasers named therein. (l)        |
| 10.37              | Purchase Agreement, dated February 5, 2015, by and among the Company, the guarantors, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC as representatives of the initial purchasers named therein. (ec)    |
| 10.38              | Purchase Agreement, dated September 14, 2015, by and among the Company, the guarantors, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as representatives of the initial purchasers named therein. (gg) |
| 10.39              | Purchase Agreement, dated February 4, 2016, by and among the Company, the guarantors, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC as representatives of the initial purchasers named therein. (ll)    |
| 21*                | Subsidiaries of the Company.                                                                                                                                                                                                   |
| 23*                | Consent of Independent Registered Public Accounting Firm.                                                                                                                                                                      |
| 31.1*              | Rule 13a-14(a) Certification of the Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                          |

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| <u>Exhibit No.</u> | <u>Exhibit Description</u>                                                                                                                                |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.2*              | Rule 13a-14(a) Certification of the Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                     |
| 32.1*              | Section 1350 Certification of Chairman of the Board and Chief Executive Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2*              | Section 1350 Certification of Chief Financial Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                           |
| 101.INS**          | XBRL Instance Document.                                                                                                                                   |
| 101.SCH**          | XBRL Taxonomy Extension Schema Document.                                                                                                                  |
| 101.CAL**          | XBRL Taxonomy Calculation Linkbase Document.                                                                                                              |
| 101.LAB**          | XBRL Taxonomy Labels Linkbase Document.                                                                                                                   |
| 101.PRE**          | XBRL Taxonomy Presentation Linkbase Document.                                                                                                             |

† Indicates management contract or compensatory plan or arrangement.

\* Filed herewith.

\*\* The XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

- (a) Incorporated by reference to exhibits filed with PHC, Inc.'s Current Report on Form 8-K filed May 25, 2011 (File No. 001-33323).
- (b) Incorporated by reference to exhibits filed with the Company's registration statement on Form S-4, as amended (File No. 333-175523), originally filed with the SEC on July 13, 2011.
- (c) Incorporated by reference to exhibits filed with PHC, Inc.'s Current Report on Form 8-K filed March 18, 2011 (File No. 001-33323).
- (d) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 5, 2012 (File No. 001-35331).
- (e) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed September 4, 2012 (File No. 001-35331).
- (f) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 27, 2012 (File No. 001-35331).
- (g) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 2, 2013 (File No. 001-35331).
- (h) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed April 4, 2013 (File No. 001-35331).
- (i) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed June 6, 2014 (File No. 001-35331).
- (j) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed October 30, 2014 (File No. 001-35331).
- (k) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 1, 2011 (File No. 001-35331).
- (l) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed June 18, 2014 (File No. 001-35331).
- (m) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed March 12, 2013 (File No. 001-35331).
- (n) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed July 2, 2014 (File No. 001-35331).

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- (o) Incorporated by reference to exhibits filed with the Company's registration statement on Form S-4 filed August 8, 2014 (File No. 333-198004).
- (p) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 12, 2015 (File No. 001-35331).
- (q) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2012 (File No. 001-35331).
- (r) Incorporated by reference to exhibits filed with the Company's registration statement on Form S-1, as amended (File No. 333-175523), originally filed with the SEC on November 23, 2011.
- (s) Incorporated by reference to exhibits filed with PHC, Inc.'s Current Report on Form 8-K filed May 13, 2004 (File No. 001-33323).
- (t) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2013 (File No. 001-35331).
- (u) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2013 (File No. 001-35331).
- (v) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 19, 2014 (File No. 001-35331).
- (w) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed June 17, 2014 (File No. 001-35331).
- (x) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed December 15, 2014 (File No. 001-35331).
- (y) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed April 11, 2014 (File No. 001-35331).
- (z) Incorporated by reference to exhibits filed with PHC, Inc.'s registration statement on Form S-8 filed January 8, 2003 (File No. 333-102402).
- (aa) Incorporated by reference to exhibits filed with PHC, Inc.'s registration statement on Form S-8 filed April 5, 2005 (File No. 333-123842).
- (bb) Incorporated by reference to exhibits filed with PHC, Inc.'s registration statement on Form S-8 filed March 6, 2008 (File No. 333-149579).
- (cc) Incorporated by reference to exhibits filed with the Company's registration statement on Form S-8 filed July 30, 2013 (File No. 333-190232).
- (dd) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2013 (File No. 001-35331).
- (ee) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 6, 2015 (File No. 001-35331).
- (ff) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2015 (File No. 001-35331).
- (gg) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed September 15, 2015 (File No. 001-35331).
- (hh) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed September 21, 2015 (File No. 001-35331).
- (ii) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 4, 2016 (File No. 001-35331).
- (jj) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 8, 2016 (File No. 001-35331).
- (kk) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 27, 2016 (File No. 001-35331).
- (ll) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 5, 2016 (File No. 001-35331).
- (mm) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 16, 2016 (File No. 001-35331).

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| <u>Notes to Consolidated Financial Statements</u>                                                           | F-11        |

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Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

We acquired CRC Health effective February 11, 2015, QAM effective March 1, 2015, two facilities from Choice Lifestyles effective April 1, 2015, Pastoral Care Group effective April 1, 2015, Mildmay Oaks effective April 1, 2015, 15 facilities from Care UK Limited effective June 1, 2015, one facility from Choice Lifestyles effective June 1, 2015, The Manor Clinic effective July 1, 2015, Belmont effective July 1, 2015, Southcoast effective August 31, 2015, three facilities from The Danshell Group effective September 1, 2015, two facilities from Health and Social Care Partnerships effective September 1, 2015, Manor Hall effective September 1, 2015, Meadow View effective October 1, 2015, Cleveland House effective November 1, 2015, Duffy's effective November 1, 2015, Discovery House effective November 1, 2015 and MMO effective December 1, 2015. We excluded these facilities from our assessment of and conclusion on the effectiveness of our internal control over financial reporting. For the year ended December 31, 2015, these facilities contributed \$553.8 million and \$66.2 million of our total revenues and net income, respectively, and as of December 31, 2015, accounted for \$1.4 billion and \$187.8 million of our total and net assets, respectively.

Our accompanying consolidated financial statements have been audited by the independent registered public accounting firm of Ernst & Young LLP. Reports of the independent registered public accounting firm, including the independent registered public accounting firm's report on our internal control over financial reporting, are included in this report.

**June 27, 2016****9:26 am**Table of Contents**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Acadia Healthcare Company, Inc.

We have audited Acadia Healthcare Company, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria"). Acadia Healthcare Company, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of CRC Health, QAM, Choice Lifestyles, Care UK Limited, Pastoral Care Group, Mildmay Oaks, The Manor Clinic, The Danshell Group, Health and Social Care Partnerships, Manor Hall, Belmont, Southcoast, Duffy's, Discovery House, Meadow View, Cleveland House, and MMO, which are included in the December 31, 2015 consolidated financial statements of Acadia Healthcare Company, Inc. and constituted \$1.4 billion and \$187.8 million of total and net assets, respectively, as of December 31, 2015 and \$553.8 million and \$66.2 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Acadia Healthcare Company, Inc. also did not include an evaluation of the internal control over financial reporting of CRC Health, QAM, Care UK Limited, Choice Lifestyles, Pastoral Care Group, Mildmay Oaks, The Manor Clinic, The Danshell Group, Health and Social Care Partnerships, Manor Hall, Belmont, Southcoast, Duffy's, Discovery House, Meadowview, Cleveland House, and MMO.

In our opinion, Acadia Healthcare Company, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Acadia Healthcare Company, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 25, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee  
February 25, 2016



**June 27, 2016****9:26 am****Table of Contents****REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Acadia Healthcare Company, Inc.

We have audited the accompanying consolidated balance sheets of Acadia Healthcare Company, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Acadia Healthcare Company, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company changed its presentation of debt issuance costs on its consolidated balance sheets, as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, and the Company changed the classification of all deferred tax assets and liabilities to noncurrent on the December 31, 2015 consolidated balance sheet as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Acadia Healthcare Company, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 25, 2016 expressed an unqualified opinion thereon.

/s/ Emst & Young LLP

Nashville, Tennessee  
February 25, 2016



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Table of ContentsAcadia Healthcare Company, Inc.  
Consolidated Balance Sheets

|                                                                                                                                                               | December 31,                                       |              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|--------------|
|                                                                                                                                                               | 2015                                               | 2014         |
|                                                                                                                                                               | (In thousands, except share and per share amounts) |              |
| <b>ASSETS</b>                                                                                                                                                 |                                                    |              |
| Current assets:                                                                                                                                               |                                                    |              |
| Cash and cash equivalents                                                                                                                                     | \$ 11,215                                          | \$ 94,040    |
| Accounts receivable, net of allowance for doubtful accounts of \$29,332 and \$22,449, respectively                                                            | 216,626                                            | 118,378      |
| Deferred tax assets                                                                                                                                           | —                                                  | 20,155       |
| Other current assets                                                                                                                                          | 66,895                                             | 41,570       |
| Total current assets                                                                                                                                          | 294,736                                            | 274,143      |
| Property and equipment:                                                                                                                                       |                                                    |              |
| Land                                                                                                                                                          | 214,138                                            | 132,406      |
| Building and improvements                                                                                                                                     | 1,277,800                                          | 858,055      |
| Equipment                                                                                                                                                     | 141,543                                            | 73,584       |
| Construction in progress                                                                                                                                      | 195,042                                            | 66,268       |
| Less accumulated depreciation                                                                                                                                 | (119,470)                                          | (60,613)     |
| Property and equipment, net                                                                                                                                   | 1,709,053                                          | 1,069,700    |
| Goodwill                                                                                                                                                      | 2,128,215                                          | 802,986      |
| Intangible assets, net                                                                                                                                        | 59,575                                             | 21,636       |
| Deferred tax assets – noncurrent                                                                                                                              | 49,114                                             | 13,141       |
| Other assets                                                                                                                                                  | 38,515                                             | 25,349       |
| Total assets                                                                                                                                                  | \$ 4,279,208                                       | \$ 2,206,955 |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                 |                                                    |              |
| Current liabilities:                                                                                                                                          |                                                    |              |
| Current portion of long-term debt                                                                                                                             | \$ 45,360                                          | \$ 26,965    |
| Accounts payable                                                                                                                                              | 91,341                                             | 48,696       |
| Accrued salaries and benefits                                                                                                                                 | 80,696                                             | 59,317       |
| Other accrued liabilities                                                                                                                                     | 72,806                                             | 30,956       |
| Total current liabilities                                                                                                                                     | 290,203                                            | 165,934      |
| Long-term debt                                                                                                                                                | 2,195,384                                          | 1,052,670    |
| Deferred tax liabilities – noncurrent                                                                                                                         | 23,936                                             | 63,880       |
| Other liabilities                                                                                                                                             | 78,602                                             | 43,506       |
| Total liabilities                                                                                                                                             | 2,588,125                                          | 1,325,990    |
| Redeemable noncontrolling interests                                                                                                                           | 8,055                                              | —            |
| Equity:                                                                                                                                                       |                                                    |              |
| Preferred stock, \$0.01 par value; 10,000,000 shares authorized, no shares issued                                                                             | —                                                  | —            |
| Common stock, \$0.01 par value; 90,000,000 shares authorized; 70,745,746 and 59,211,859 issued and outstanding as of December 31, 2015 and 2014, respectively | 707                                                | 592          |
| Additional paid-in capital                                                                                                                                    | 1,572,972                                          | 847,301      |
| Accumulated other comprehensive loss                                                                                                                          | (104,647)                                          | (68,370)     |
| Retained earnings                                                                                                                                             | 213,996                                            | 101,442      |
| Total equity                                                                                                                                                  | 1,683,028                                          | 880,965      |
| Total liabilities and equity                                                                                                                                  | \$ 4,279,208                                       | \$ 2,206,955 |

See accompanying notes.

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Acadia Healthcare Company, Inc.  
Consolidated Statements of Income

|                                                                                                                            | Year Ended December 31,                  |             |            |
|----------------------------------------------------------------------------------------------------------------------------|------------------------------------------|-------------|------------|
|                                                                                                                            | 2015                                     | 2014        | 2013       |
|                                                                                                                            | (In thousands, except per share amounts) |             |            |
| Revenue before provision for doubtful accounts                                                                             | \$1,829,619                              | \$1,030,784 | \$ 735,109 |
| Provision for doubtful accounts                                                                                            | (35,127)                                 | (26,183)    | (21,701)   |
| Revenue                                                                                                                    | 1,794,492                                | 1,004,601   | 713,408    |
| Salaries, wages and benefits (including equity-based compensation expense of \$20,472, \$10,058 and \$5,249, respectively) | 973,732                                  | 575,412     | 407,962    |
| Professional fees                                                                                                          | 116,463                                  | 52,482      | 37,171     |
| Supplies                                                                                                                   | 80,663                                   | 48,422      | 37,569     |
| Rents and leases                                                                                                           | 32,528                                   | 12,201      | 10,049     |
| Other operating expenses                                                                                                   | 206,746                                  | 110,654     | 80,572     |
| Depreciation and amortization                                                                                              | 63,550                                   | 32,667      | 17,090     |
| Interest expense, net                                                                                                      | 106,742                                  | 48,221      | 37,250     |
| Debt extinguishment costs                                                                                                  | 10,818                                   | —           | 9,350      |
| Loss (gain) on foreign currency derivatives                                                                                | 1,926                                    | (15,262)    | —          |
| Transaction-related expenses                                                                                               | 36,571                                   | 13,650      | 7,150      |
| Total expenses                                                                                                             | 1,629,739                                | 878,447     | 644,163    |
| Income from continuing operations before income taxes                                                                      | 164,753                                  | 126,154     | 69,245     |
| Provision for income taxes                                                                                                 | 53,388                                   | 42,922      | 25,975     |
| Income from continuing operations                                                                                          | 111,365                                  | 83,232      | 43,270     |
| Income (loss) from discontinued operations, net of income taxes                                                            | 111                                      | (192)       | (691)      |
| Net income                                                                                                                 | 111,476                                  | 83,040      | 42,579     |
| Net loss attributable to noncontrolling interests                                                                          | 1,078                                    | —           | —          |
| Net income attributable to Acadia Healthcare Company, Inc.                                                                 | \$ 112,554                               | \$ 83,040   | \$ 42,579  |
| Basic earnings attributable to Acadia Healthcare Company, Inc. stockholders:                                               |                                          |             |            |
| Income from continuing operations                                                                                          | \$ 1.65                                  | \$ 1.51     | \$ 0.87    |
| Loss from discontinued operations                                                                                          | —                                        | —           | (0.02)     |
| Net income                                                                                                                 | \$ 1.65                                  | \$ 1.51     | \$ 0.85    |
| Diluted earnings attributable to Acadia Healthcare Company, Inc. stockholders:                                             |                                          |             |            |
| Income from continuing operations                                                                                          | \$ 1.64                                  | \$ 1.50     | \$ 0.86    |
| Loss from discontinued operations                                                                                          | —                                        | —           | (0.01)     |
| Net income                                                                                                                 | \$ 1.64                                  | \$ 1.50     | \$ 0.85    |
| Weighted-average shares outstanding:                                                                                       |                                          |             |            |
| Basic                                                                                                                      | 68,085                                   | 55,063      | 50,004     |
| Diluted                                                                                                                    | 68,391                                   | 55,327      | 50,261     |

See accompanying notes.

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**Acadia Healthcare Company, Inc.**  
**Consolidated Statements of Comprehensive Income**

|                                                                                        | Year Ended December 31, |                  |                 |
|----------------------------------------------------------------------------------------|-------------------------|------------------|-----------------|
|                                                                                        | 2015                    | 2014             | 2013            |
|                                                                                        | (In thousands)          |                  |                 |
| Net income                                                                             | \$111,476               | \$ 83,040        | \$42,579        |
| Other comprehensive loss:                                                              |                         |                  |                 |
| Foreign currency translation loss                                                      | (40,103)                | (66,206)         | —               |
| Pension liability adjustment, net of tax of \$0.9 million, \$0.6 and \$0, respectively | 3,826                   | (2,164)          | —               |
| Other comprehensive loss                                                               | (36,277)                | (68,370)         | —               |
| Comprehensive loss                                                                     | 75,199                  | 14,670           | 42,579          |
| Comprehensive loss attributable to noncontrolling interests                            | 1,078                   | —                | —               |
| Comprehensive (loss) income attributable to Acadia Healthcare Company, Inc.            | <u>\$ 76,277</u>        | <u>\$ 14,670</u> | <u>\$42,579</u> |

See accompanying notes.

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Acadia Healthcare Company, Inc.  
Consolidated Statements of Equity

|                                                                         | Common Stock |        | Additional<br>Paid-<br>in Capital | Other<br>Comprehensive<br>Loss | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Total        |
|-------------------------------------------------------------------------|--------------|--------|-----------------------------------|--------------------------------|--------------------------------------------------|--------------|
|                                                                         | Shares       | Amount |                                   |                                |                                                  |              |
| Balance at January 1, 2013                                              | 49,887       | \$ 499 | \$ 456,228                        | \$ —                           | \$ (24,177)                                      | \$ 432,550   |
| Common stock issued under stock incentive plans                         | 184          | 2      | 311                               | —                              | —                                                | 313          |
| Common stock withheld for minimum statutory taxes                       | —            | —      | (1,555)                           | —                              | —                                                | (1,555)      |
| Equity-based compensation expense                                       | —            | —      | 5,249                             | —                              | —                                                | 5,249        |
| Excess tax benefit from equity awards                                   | —            | —      | 1,779                             | —                              | —                                                | 1,779        |
| Issuance of common stock, net                                           | —            | —      | (205)                             | —                              | —                                                | (205)        |
| Net income                                                              | —            | —      | —                                 | —                              | 42,579                                           | 42,579       |
| Balance at December 31, 2013                                            | 50,071       | \$ 501 | \$ 461,807                        | \$ —                           | \$ 18,402                                        | \$ 480,710   |
| Common stock issued under stock incentive plans                         | 259          | 2      | 568                               | —                              | —                                                | 570          |
| Common stock withheld for minimum statutory taxes                       | —            | —      | (4,669)                           | —                              | —                                                | (4,669)      |
| Equity-based compensation expense                                       | —            | —      | 10,058                            | —                              | —                                                | 10,058       |
| Excess tax benefit from equity awards                                   | —            | —      | 4,617                             | —                              | —                                                | 4,617        |
| Issuance of common stock, net                                           | 8,882        | 89     | 374,342                           | —                              | —                                                | 374,431      |
| Other                                                                   | —            | —      | 578                               | —                              | —                                                | 578          |
| Other comprehensive loss                                                | —            | —      | —                                 | (68,370)                       | —                                                | (68,370)     |
| Net income                                                              | —            | —      | —                                 | —                              | 83,040                                           | 83,040       |
| Balance at December 31, 2014                                            | 59,212       | \$ 592 | \$ 847,301                        | \$ (68,370)                    | \$ 101,442                                       | \$ 880,965   |
| Common stock issued under stock incentive plans                         | 384          | 4      | 1,811                             | —                              | —                                                | 1,815        |
| Common stock withheld for minimum statutory taxes                       | —            | —      | (9,577)                           | —                              | —                                                | (9,577)      |
| Equity-based compensation expense                                       | —            | —      | 20,472                            | —                              | —                                                | 20,472       |
| Excess tax benefit from equity awards                                   | —            | —      | 309                               | —                              | —                                                | 309          |
| Issuance of common stock, net                                           | 11,150       | 111    | 711,406                           | —                              | —                                                | 711,517      |
| Other comprehensive loss                                                | —            | —      | —                                 | (36,277)                       | —                                                | (36,277)     |
| Other                                                                   | —            | —      | 1,250                             | —                              | —                                                | 1,250        |
| Net income attributable to Acadia Healthcare Company, Inc. stockholders | —            | —      | —                                 | —                              | 112,554                                          | 112,554      |
| Balance at December 31, 2015                                            | 70,746       | \$ 707 | \$ 1,572,972                      | \$ (104,647)                   | \$ 213,996                                       | \$ 1,683,028 |

See accompanying notes.

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Acadia Healthcare Company, Inc.  
Consolidated Statements of Cash Flows

|                                                                                                     | Year Ended December 31, |           |           |
|-----------------------------------------------------------------------------------------------------|-------------------------|-----------|-----------|
|                                                                                                     | 2015                    | 2014      | 2013      |
|                                                                                                     | (In thousands)          |           |           |
| <b>Operating activities:</b>                                                                        |                         |           |           |
| Net income                                                                                          | \$ 111,476              | \$ 83,040 | \$ 42,579 |
| <b>Adjustments to reconcile net income to net cash provided by continuing operating activities:</b> |                         |           |           |
| Depreciation and amortization                                                                       | 63,550                  | 32,667    | 17,090    |
| Amortization of debt issuance costs                                                                 | 6,709                   | 3,198     | 2,264     |
| Equity-based compensation expense                                                                   | 20,472                  | 10,058    | 5,249     |
| Deferred income tax expense                                                                         | 43,613                  | 7,215     | 10,083    |
| (Income) loss from discontinued operations, net of taxes                                            | (111)                   | 192       | 691       |
| Debt extinguishment costs                                                                           | 10,818                  | —         | 9,350     |
| Loss (gain) on foreign currency derivatives                                                         | 1,926                   | (15,262)  | —         |
| Other                                                                                               | 1,615                   | 488       | 21        |
| Change in operating assets and liabilities, net of effect of acquisitions:                          |                         |           |           |
| Accounts receivable, net                                                                            | (24,954)                | (15,110)  | (21,242)  |
| Other current assets                                                                                | (2,717)                 | (2,011)   | (3,652)   |
| Other assets                                                                                        | (8,021)                 | (6,513)   | (2,239)   |
| Accounts payable and other accrued liabilities                                                      | 6,868                   | 2,793     | (848)     |
| Accrued salaries and benefits                                                                       | 1,658                   | 11,980    | 2,803     |
| Other liabilities                                                                                   | 9,236                   | 2,749     | 3,181     |
| Net cash provided by continuing operating activities                                                | 242,138                 | 115,484   | 65,330    |
| Net cash (used in) provided by discontinued operating activities                                    | (1,735)                 | (198)     | 232       |
| Net cash provided by operating activities                                                           | 240,403                 | 115,286   | 65,562    |
| <b>Investing activities:</b>                                                                        |                         |           |           |
| Cash paid for acquisitions, net of cash acquired                                                    | (574,777)               | (738,702) | (164,019) |
| Cash paid for capital expenditures                                                                  | (276,047)               | (113,244) | (68,941)  |
| Cash paid for real estate acquisitions                                                              | (26,622)                | (23,177)  | (8,092)   |
| Settlement of foreign currency derivatives                                                          | (1,926)                 | 15,262    | —         |
| Other                                                                                               | (5,099)                 | (913)     | (1,926)   |
| Net cash used in investing activities                                                               | (884,471)               | (860,774) | (242,978) |
| <b>Financing activities:</b>                                                                        |                         |           |           |
| Borrowings on long-term debt                                                                        | 1,150,000               | 542,500   | 150,000   |
| Borrowings on revolving credit facility                                                             | 468,000                 | 230,500   | 61,500    |
| Principal payments on revolving credit facility                                                     | (310,000)               | (284,000) | (8,000)   |
| Principal payments on long-term debt                                                                | (31,965)                | (7,695)   | (7,680)   |
| Repayment of assumed CRC debt                                                                       | (904,467)               | —         | —         |
| Repayment of senior notes                                                                           | (97,500)                | —         | (52,500)  |
| Payment of debt issuance costs                                                                      | (26,421)                | (12,993)  | (4,307)   |
| Payment of premium on senior notes                                                                  | (7,480)                 | —         | (6,759)   |
| Issuances of common stock, net                                                                      | 331,308                 | 374,431   | (205)     |
| Common stock withheld for minimum statutory taxes, net                                              | (7,762)                 | (4,099)   | (1,242)   |
| Excess tax benefit from equity awards                                                               | 309                     | 4,617     | 1,779     |
| Cash paid for contingent consideration                                                              | —                       | (5,000)   | —         |
| Other                                                                                               | (420)                   | (289)     | —         |
| Net cash provided by financing activities                                                           | 563,602                 | 837,972   | 132,586   |
| Effect of exchange rate changes on cash                                                             | (2,359)                 | (3,013)   | —         |
| Net increase(decrease) in cash and cash equivalents                                                 | (82,825)                | 89,471    | (44,830)  |
| Cash and cash equivalents at beginning of the period                                                | 94,040                  | 4,569     | 49,399    |
| Cash and cash equivalents at end of the period                                                      | \$ 11,215               | \$ 94,040 | \$ 4,569  |

(continued on next page)

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**Acadia Healthcare Company, Inc.**  
**Consolidated Statements of Cash Flows (continued)**

**Supplemental Cash Flow Information:**

Cash paid for interest

Cash paid for income taxes

**Significant Non-Cash Transactions:**

Contingent consideration issued in connection with acquisition

**Effect of acquisitions:**

Assets acquired, excluding cash

Liabilities assumed

Issuance of common stock in connection with acquisition

Redeemable noncontrolling interest resulting from acquisitions

Deposits paid for acquisitions

Prior year deposits paid for acquisitions

Contingent consideration issued in connection with acquisition

Cash paid for acquisitions, net of cash acquired

| Year Ended December 31, |           |           |
|-------------------------|-----------|-----------|
| 2015                    | 2014      | 2013      |
| (In thousands)          |           |           |
| \$ 87,034               | \$ 36,776 | \$ 33,270 |
| \$ 6,911                | \$ 32,257 | \$ 16,960 |
| \$ —                    | \$ 1,467  | \$ —      |
| \$ 1,988,634            | \$819,518 | \$192,928 |
| (1,024,515)             | (78,849)  | (17,725)  |
| (380,210)               | —         | —         |
| (9,132)                 | —         | —         |
| —                       | —         | 500       |
| —                       | (500)     | (11,684)  |
| —                       | (1,467)   | —         |
| \$ 574,777              | \$738,702 | \$164,019 |

See accompanying notes.

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**Acadia Healthcare Company, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2015**

**1. Description of Business and Basis of Presentation*****Description of Business***

Acadia Healthcare Company, Inc. (the "Company") develops and operates inpatient psychiatric facilities, residential treatment centers, group homes, substance abuse facilities and facilities providing outpatient behavioral healthcare services to serve the behavioral health and recovery needs of communities throughout the United States, the United Kingdom and Puerto Rico. At December 31, 2015, the Company operated 258 behavioral healthcare facilities with over 9,900 beds in 39 states, the United Kingdom and Puerto Rico.

***Basis of Presentation***

The business of the Company is conducted through limited liability companies, partnerships and C-corporations. The Company's consolidated financial statements include the accounts of the Company and all subsidiaries controlled by the Company through its' direct or indirect ownership of majority interests and exclusive rights granted to the Company as the controlling member of an entity. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The majority of the Company's expenses are "cost of revenue" items. Costs that could be classified as general and administrative expenses include the Company's corporate office costs, which were \$68.3 million, \$36.9 million and \$29.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Certain reclassifications have been made to prior years to conform to the current year presentation.

**2. Summary of Significant Accounting Policies*****Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At times, cash and cash equivalent balances may exceed federally insured limits. Management believes that the Company mitigates any risks by depositing cash and investing in cash equivalents with major financial institutions.

***Revenue and Accounts Receivable***

Revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and adolescent residential treatment. The Company receives payments from the following sources for services rendered in our facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by CMS; (iv) the NHS (including Local Authorities) in the United Kingdom; and (v) individual patients and clients. Revenue is recorded in the period in which services are provided at established billing rates less contractual adjustments based on amounts reimbursable by Medicare or Medicaid under provisions of cost or prospective reimbursement formulas or amounts due from other third-party payors at contractually determined rates.



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The following table presents revenue by payor type as a percentage of revenue before provision for doubtful accounts:

|            | Year Ended December 31, |       |       |
|------------|-------------------------|-------|-------|
|            | 2015                    | 2014  | 2013  |
| Commercial | 23.1%                   | 23.0% | 24.9% |
| Medicare   | 11.7                    | 19.4  | 21.5  |
| Medicaid   | 33.3                    | 38.3  | 48.0  |
| NHS        | 19.5                    | 14.5  | —     |
| Self-Pay   | 9.6                     | 2.5   | 3.4   |
| Other      | 2.8                     | 2.3   | 2.2   |
| Revenue    | 100%                    | 100%  | 100%  |

On a combined basis, revenue related to the Medicare and Medicaid programs were 45%, 58% and 70% of all revenue before provision for doubtful accounts for the years ended December 31, 2015, 2014 and 2013, respectively. The Company's concentration of credit risk from other payors is reduced by the large number of payors and their geographic dispersion. The Company generated approximately 20% of its revenue for the year ended December 31, 2015 from facilities located in the United Kingdom, approximately 15% and 12% of its revenue from facilities located in the United Kingdom and Arkansas, respectively, for the year ended December 31, 2014 and approximately 17% of its revenue from facilities located in Arkansas for the year ended December 31, 2013.

*Allowance for Contractual Discounts*

The Company derives a significant portion of its revenues from Medicare, Medicaid and other payors that receive discounts from established billing rates. The Medicare and Medicaid regulations and various managed care contracts under which these discounts must be calculated are complex, subject to interpretation and adjustment, and may include multiple reimbursement mechanisms for different types of services provided in the Company's inpatient facilities and cost settlement provisions. Management estimates the allowance for contractual discounts on a payor-specific basis given its interpretation of the applicable regulations or contract terms. The services authorized and provided and related reimbursement are often subject to interpretation that could result in payments that differ from the Company's estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management.

Settlements under cost reimbursement agreements with third-party payors are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occurs in subsequent years because of audits by such programs, rights of appeal and the application of numerous technical provisions. In the opinion of management, adequate provision has been made for any adjustments and final settlements. However, there can be no assurance that any such adjustments and final settlements will not have a material effect on the Company's financial condition or results of operations. The Company's cost report receivables were \$4.2 million and \$1.9 million at December 31, 2015 and 2014, respectively, and were included in other current assets in the consolidated balance sheets. Management believes that these receivables are properly stated and are not likely to be settled for a significantly different amount. The net adjustments to estimated cost report settlements resulted in increases to revenue of \$1.9 million, \$0.3 million and \$0.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

*Allowance for Doubtful Accounts*

The Company's ability to collect outstanding patient receivables from third party payors is critical to its operating performance and cash flows. The primary collection risk with regard to patient receivables relates to uninsured patient accounts or patient accounts for which primary insurance has paid, but the portion owed by the patient remains outstanding. The Company estimates uncollectible accounts and establishes an allowance for doubtful accounts in order to adjust accounts receivable to estimated net realizable value. In evaluating the collectability of accounts receivable, the Company considers a number of factors, including the age of the accounts, historical collection experience, current economic conditions, and other relevant factors. Accounts receivable that are determined to be uncollectible based on the Company's policies are written off to the allowance for doubtful accounts. Significant changes in payor mix or business office operations could have a significant impact on the Company's results of operations and cash flows.



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A summary of activity in the Company's allowance for doubtful accounts is as follows (in thousands):

|                              | Balance at<br>Beginning of<br>Period | Additions<br>Charged to Costs<br>and Expenses | Accounts<br>Written Off, Net<br>of Recoveries | Balance at<br>End of<br>Period |
|------------------------------|--------------------------------------|-----------------------------------------------|-----------------------------------------------|--------------------------------|
| Year ended December 31, 2013 | \$ 7,484                             | \$ 21,701                                     | \$ (10,840)                                   | \$ 18,345                      |
| Year ended December 31, 2014 | 18,345                               | 26,183                                        | (22,079)                                      | 22,449                         |
| Year ended December 31, 2015 | 22,449                               | 35,127                                        | (28,244)                                      | 29,332                         |

**Charity Care**

The Company provides care without charge to patients who are financially unable to pay for the healthcare services they receive based on Company policies and federal and state poverty thresholds. The costs of providing charity care services were \$4.6 million, \$2.5 million and \$2.6 million for the years ended December 31, 2015, 2014 and 2013, respectively. The estimated cost of charity care services was determined using a ratio of cost to gross charges determined from our most recently filed Medicare cost reports and applying that ratio to the gross charges associated with providing charity care for the period.

**Insurance**

The Company is subject to medical malpractice and other lawsuits due to the nature of the services the Company provides. The Company's operations have professional and general liability insurance for claims in excess of a \$1,000,000 self-insured retention with an insured excess limit of \$50 million. The reserve for professional and general liability risks was estimated based on historical claims, demographic factors, industry trends, severity factors, and other actuarial assumptions. The estimated accrual for professional and general liabilities could be significantly affected should current and future occurrences differ from historical claim trends and expectations. While claims are monitored closely when estimating professional and general liability accruals, the complexity of the claims and wide range of potential outcomes often hampers timely adjustments to the assumptions used in these estimates. The professional and general liability reserve was \$41.9 million as of December 31, 2015, of which \$10.5 million was included in other accrued liabilities and \$31.4 million was included in other long-term liabilities. The professional and general liability reserve was \$16.3 million as of December 31, 2014, of which \$4.2 million was included in other accrued liabilities and \$12.1 million was included in other long-term liabilities. The Company estimates receivables for the portion of professional and general liability reserves that are recoverable under the Company's insurance policies. Such receivable was \$21.3 million as of December 31, 2015, of which \$5.3 million was included in other current assets and \$16.0 million was included in other assets, and such receivable was \$12.0 million as of December 31, 2014, of which \$3.5 million was included in other current assets and \$8.5 million was included in other assets.

The Company's statutory workers' compensation program is fully insured with a \$500,000 deductible per accident. The workers' compensation liability was \$14.7 million as of December 31, 2015, of which \$7.5 million was included in accrued salaries and benefits and \$7.2 million was included in other long-term liabilities, and such liability was \$8.4 million as of December 31, 2014, of which \$4.8 million was included in accrued salaries and benefits and \$3.6 million was included in other long-term liabilities. The reserve for workers compensation claims was based upon independent actuarial estimates of future amounts that will be paid to claimants. Management believes that adequate provisions have been made for workers' compensation and professional and general liability risk exposures.

**Property and Equipment and Other Long-Lived Assets**

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets, which typically range from 10 to 50 years for buildings and improvements, three to seven years for equipment and the shorter of the lease term or estimated useful lives for leasehold improvements. When assets are sold or retired, the corresponding cost and accumulated depreciation are removed from the related accounts and any gain or loss is recorded in the period of sale or retirement. Repair and maintenance costs are expensed as incurred. Depreciation expense was \$63.0 million, \$32.1 million and \$16.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The carrying values of long-lived assets are reviewed for possible impairment whenever events, circumstances or operating results indicate that the carrying amount of an asset may not be recoverable. If this review indicates that the asset will not be recoverable, as determined based upon the undiscounted cash flows of the operating asset over the remaining useful lives, the carrying value of the asset will be reduced to its estimated fair value. Fair value estimates are based on independent appraisals, market values of comparable assets or internal evaluations of future net cash flows.

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Table of Contents**Goodwill and Indefinite-Lived Intangible Assets**

The Company's goodwill and other indefinite-lived intangible assets, which consist of licenses and accreditations and certificates of need intangible assets that are not amortized, are evaluated for impairment annually during the fourth quarter or more frequently if events indicate that the carrying value of a reporting unit may not be recoverable. The Company has two operating segments, U.S. Facilities and U.K. Facilities, for segment reporting purposes, each of which represents a reporting unit for purposes of the Company's goodwill impairment test. Potential impairment is noted for a reporting unit if its carrying value exceeds the fair value of the reporting unit. For a reporting unit with potential impairment of goodwill, the Company determines the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, an impairment loss is recorded. The Company's annual impairment tests of goodwill and other indefinite-lived intangibles in 2015, 2014 and 2013 resulted in no impairment charges.

**Other Current Assets**

Other current assets consisted of the following (in thousands):

|                                                  | As of December 31, |                 |
|--------------------------------------------------|--------------------|-----------------|
|                                                  | 2015               | 2014            |
| Prepaid expenses                                 | \$21,817           | \$11,746        |
| Other receivables                                | 17,518             | 12,713          |
| Insurance receivable – current portion           | 5,290              | 3,500           |
| Workers' compensation deposits – current portion | 7,500              | 4,800           |
| Income taxes receivable                          | 6,540              | 3,399           |
| Inventory                                        | 4,681              | 3,249           |
| Other                                            | 3,549              | 2,163           |
| Other current assets                             | <u>\$66,895</u>    | <u>\$41,570</u> |

**Other Accrued Liabilities**

Other accrued liabilities consisted of the following (in thousands):

|                                       | As of December 31, |                 |
|---------------------------------------|--------------------|-----------------|
|                                       | 2015               | 2014            |
| Accrued interest                      | \$26,132           | \$13,013        |
| Insurance liability – current portion | 10,490             | 4,239           |
| Other current liabilities             | 7,499              | 725             |
| Income taxes payable                  | 7,367              | 148             |
| Contingent consideration              | 667                | 3,000           |
| Accrued property taxes                | 2,951              | 2,069           |
| Other                                 | 17,700             | 7,762           |
| Other accrued liabilities             | <u>\$72,806</u>    | <u>\$30,956</u> |

**Stock Compensation**

The Company measures and recognizes the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, "Compensation—Stock Compensation." The Company uses the Black-Scholes valuation model to determine grant-date fair value for equity awards and uses straight-line amortization of share-based compensation expense over the requisite service period of the respective awards.

**Earnings Per Share**

Basic and diluted earnings per share are calculated in accordance with FASB ASC 260, "Earnings Per Share," based on the weighted-average number of shares outstanding in each period and dilutive stock options, non-vested shares and warrants, to the extent such securities have a dilutive effect on earnings per share.

Table of Contents**Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and net operating loss and tax credit carryforwards. The amount of deferred taxes on these temporary differences is determined using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, as applicable, based on tax rates and laws in the respective tax jurisdiction enacted as of the balance sheet date.

The Company reviews its deferred tax assets for recoverability and establishes a valuation allowance based on historical taxable income, projected future taxable income, applicable tax strategies, and the expected timing of the reversals of existing temporary differences. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

**Recent Accounting Pronouncements**

In November 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2015-17, "*Balance Sheet Classification of Deferred Taxes*" ("ASU 2015-17"). ASU 2015-17 simplifies the presentation for deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. Although this guidance has an effective date for public companies for annual periods beginning after December 15, 2016, the Company has elected early adoption prospectively, as permitted, as of December 13, 2015. As such, the consolidated balance sheet as of December 31, 2014 was not retrospectively adjusted.

In September 2015, the FASB issued ASU 2015-16, "*Business Combinations (Subtopic 805-10)*" ("ASU 2015-16"). ASU 2015-16 simplifies the accounting for measurement-period adjustments by eliminating the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Acquirers will recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. Although this guidance has an effective date for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2015, the Company has elected early adoption as permitted in the current period. There was no significant impact on the Company's consolidated financial statements as a result of the adoption.

In April 2015, the FASB issued ASU 2015-03, "*Interest-Imputation of Interest (Subtopic 835-30)*" ("ASU 2015-03"). ASU 2015-03 simplifies the presentation of debt issuance costs by requiring debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, and the new guidance should be applied retrospectively. The Company has elected early adoption, as permitted, as of December 31, 2015 with retrospective application to December 31, 2014.

In May 2014, the FASB and the International Accounting Standards Board issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*" ("ASU 2014-09"). ASU 2014-09's core principal is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Additionally, ASU 2014-09 would permit both public and nonpublic organizations to adopt the new revenue standard early, but not before the original public organization effective date (that is, annual periods beginning after December 15, 2016). Management is evaluating the impact of ASU 2014-09 on the Company's consolidated financial statements.

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Table of Contents**3. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings (loss) per share for the years ended December 31, 2015, 2014 and 2013 (in thousands except per share amounts):

|                                                                                              | Year Ended December 31, |                 |                 |
|----------------------------------------------------------------------------------------------|-------------------------|-----------------|-----------------|
|                                                                                              | 2015                    | 2014            | 2013            |
| <b>Numerator:</b>                                                                            |                         |                 |                 |
| Basic and diluted earnings (loss) per share attributable to Acadia Healthcare Company, Inc.: |                         |                 |                 |
| Income from continuing operations                                                            | \$112,443               | \$83,232        | \$43,270        |
| Income (loss) from discontinued operation                                                    | 111                     | (192)           | (691)           |
| Net income attributable to Acadia Healthcare Company, Inc.                                   | <u>\$112,554</u>        | <u>\$83,040</u> | <u>\$42,579</u> |
| <b>Denominator:</b>                                                                          |                         |                 |                 |
| Weighted average shares outstanding for basic earnings per share                             | 68,085                  | 55,063          | 50,004          |
| Effects of dilutive instruments                                                              | 306                     | 264             | 257             |
| Shares used in computing diluted earnings per common share                                   | <u>68,391</u>           | <u>55,327</u>   | <u>50,261</u>   |
| <b>Basic earnings (loss) per share attributable to Acadia Healthcare Company, Inc.:</b>      |                         |                 |                 |
| Income from continuing operations                                                            | \$ 1.65                 | \$ 1.51         | \$ 0.87         |
| Loss from discontinued operations                                                            | —                       | —               | (0.02)          |
| Net income attributable to Acadia Healthcare Company, Inc.:                                  | <u>\$ 1.65</u>          | <u>\$ 1.51</u>  | <u>\$ 0.85</u>  |
| <b>Diluted earnings (loss) per share attributable to Acadia Healthcare Company, Inc.:</b>    |                         |                 |                 |
| Income from continuing operations                                                            | \$ 1.64                 | \$ 1.50         | \$ 0.86         |
| Loss from discontinued operations                                                            | —                       | —               | (0.01)          |
| Net income attributable to Acadia Healthcare Company, Inc.:                                  | <u>\$ 1.64</u>          | <u>\$ 1.50</u>  | <u>\$ 0.85</u>  |

Approximately 0.8 million, 0.7 million and 0.6 million shares of common stock issuable upon exercise of outstanding stock options were excluded from the calculation of diluted earnings per share for the year ended December 31, 2015, 2014 and 2013, respectively, because their effect would have been anti-dilutive.

**4. Acquisitions****U.S. Acquisitions**

On December 1, 2015, the Company completed the acquisition of certain facilities from MMO Behavioral Health Systems ("MMO"), including two acute inpatient behavioral health facilities with a total of 80 beds located in Jennings and Covington, Louisiana, for cash consideration of approximately \$20.2 million.

On November 1, 2015, the Company completed the acquisitions of (i) Discovery House for cash consideration of approximately \$118.5 million and (ii) Duffy's for cash consideration of approximately \$29.6 million. Discovery House operates 19 comprehensive treatment centers located in four states. Duffy's is a substance abuse facility with 61 beds located in Calistoga, California.

On August 31, 2015, the Company completed the acquisition of a controlling interest in Southcoast Behavioral ("Southcoast"), an inpatient psychiatric facility located in Fairhaven, Massachusetts. The Company owns 75% of the equity interests in the facility. The value of the 25% noncontrolling interest approximates \$9.2 million. The Company considered an income approach and other valuation methodologies to value the noncontrolling interests. The Company consolidates the operations of the facility based on its 75% equity ownership and its management of the entity. The noncontrolling interests are reflected as redeemable noncontrolling interests on the accompanying condensed consolidated balance sheet based on a put right that could require the Company to purchase the noncontrolling interests upon the occurrence of a change in control.

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On July 1, 2015, the Company completed the acquisition of the assets of Belmont Behavioral Health ("Belmont"), an inpatient psychiatric facility with 147 beds located in Philadelphia, Pennsylvania for cash consideration of approximately \$38.2 million which consists of \$35.0 million base purchase price and an estimated working capital settlement of \$3.2 million.

On March 1, 2015, the Company acquired the stock of Quality Addiction Management, Inc. ("QAM") for total consideration of approximately \$54.8 million. QAM operates seven comprehensive treatment centers located in Wisconsin.

On February 11, 2015, the Company completed its acquisition of CRC Health Group, Inc. ("CRC") for total consideration of approximately \$1.3 billion. As consideration for the acquisition, the Company issued 5,975,326 shares of its common stock to certain holders of CRC common stock and repaid CRC's outstanding indebtedness of \$904.5 million. CRC is a leading provider of treatment services related to substance abuse and other addiction and behavioral disorders. At the acquisition date, CRC operated 35 inpatient facilities with over 2,400 beds and 81 comprehensive treatment centers located in 30 states.

***U.K. Acquisitions***

On November 1, 2015, the Company completed the acquisition of Cleveland House, an inpatient psychiatric facility with 32 beds located in England, for approximately \$10.3 million.

On October 1, 2015, the Company completed the acquisition of Meadow View, an inpatient psychiatric facility with 28 beds located in England, for cash consideration of approximately \$6.8 million.

On September 1, 2015, the Company completed the acquisitions of (i) three facilities from The Danshell Group ("Danshell") for approximately \$59.8 million, (ii) two facilities from Health and Social Care Partnerships ("H&SCP") for approximately \$26.2 million and (iii) Manor Hall for approximately \$14.0 million. The inpatient psychiatric facilities acquired from Danshell have an aggregate of 73 beds and are located in England. The inpatient psychiatric facilities acquired from H&SCP have an aggregate of 50 beds and are located in England. Manor Hall has 26 beds and is located in England.

On July 1, 2015, the Company completed the acquisition of The Manor Clinic, a substance abuse facility with 15 beds located in England, for cash consideration of approximately \$5.9 million.

On June 1, 2015, the Company completed the acquisitions of (i) one facility from Choice Lifestyles ("Choice") for approximately \$25.9 million and (ii) 15 facilities from Care UK Limited ("Care UK") for approximately \$88.2 million. The inpatient psychiatric facility acquired from Choice has 42 beds and is located in England. The inpatient psychiatric facilities acquired from Care UK have an aggregate of 299 beds and are located in England.

On April 1, 2015, the Company completed the acquisitions of (i) two facilities from Choice for approximately \$37.5 million, (ii) Pastoral Care Group ("Pastoral") for approximately \$34.2 million and (iii) Mildmay Oaks f/k/a Vista Independent Hospital ("Mildmay Oaks") for approximately \$14.9 million. The two inpatient psychiatric facilities acquired from Choice have an aggregate of 48 beds and are located in England. Pastoral operates two inpatient psychiatric facilities with an aggregate of 65 beds located in Wales. Mildmay Oaks is an inpatient psychiatric facility with 67 beds located in England.

***2014 Acquisitions***

On December 1, 2014, the Company acquired the assets of Croxton Warwick Lodge ("Croxton"), an inpatient psychiatric facility with 24 beds located in England, for cash consideration of \$15.6 million. On December 31, 2014, the Company completed the acquisition of Skyway House ("Skyway"), a substance abuse facility with 28 beds located in Chico, California, for cash consideration of \$0.3 million. On September 3, 2014, the Company completed the acquisition of McCallum Place ("McCallum"), an eating disorder treatment facility with 85 beds offering residential, partial hospitalization and intensive outpatient treatment programs located in St. Louis, Missouri, and Austin, Texas, for total consideration of \$37.4 million. On July 1, 2014, the Company acquired Partnerships in Care for cash consideration of \$661.7 million, which was net of cash acquired of \$12.0 million and the gain on settlement of foreign currency derivatives of \$15.3 million. At the acquisition date, Partnerships in Care was the second largest independent provider of inpatient behavioral healthcare services in the United Kingdom, operating 23 inpatient behavioral healthcare facilities with over 1,200 beds. On January 1, 2014, the Company acquired the assets of Pacific Grove Hospital ("Pacific Grove"), an inpatient psychiatric facility with 68 beds located in Riverside, California, for cash consideration of \$10.5 million.

***Summary of Acquisitions***

The Company selectively seeks opportunities to expand and diversify its base of operations by acquiring additional facilities. Approximately \$326.1 million of the goodwill associated with domestic acquisitions completed in 2015 and 2014 is deductible for federal income tax purposes. The fair values assigned to certain assets and liabilities assumed by the Company have been estimated on a preliminary basis and are subject to change as new facts and circumstances emerge that were present at the date of acquisition. Specifically, the Company is further assessing the valuation of certain real property and intangible assets and certain tax matters as well as certain receivables and assumed liabilities of MMO, Discovery House, Duffy's, Cleveland House, Meadow View, Danshell, H&SCP, Manor Hall, The Manor Clinic, Belmont, Choice, Care UK, Pastoral, Mildmay Oaks, QAM and CRC.



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The preliminary fair values of assets acquired and liabilities assumed, at the corresponding acquisition dates, during the year ended December 31, 2015 in connection with 2015 acquisitions were as follows (in thousands):

|                                           | <b>CRC</b>        | <b>Other</b>     | <b>Total</b>      |
|-------------------------------------------|-------------------|------------------|-------------------|
| Cash                                      | \$ 19,599         | \$ 5,417         | \$ 25,016         |
| Accounts receivable                       | 47,018            | 27,191           | 74,209            |
| Prepaid expenses and other current assets | 11,979            | 2,957            | 14,936            |
| Property and equipment                    | 137,555           | 273,143          | 410,698           |
| Goodwill                                  | 1,042,521         | 313,680          | 1,356,201         |
| Intangible assets                         | 37,000            | 204              | 37,204            |
| Deferred tax asset-noncurrent             | 88,857            | —                | 88,857            |
| Other assets                              | 6,478             | 51               | 6,529             |
| <b>Total assets acquired</b>              | <b>1,391,007</b>  | <b>622,643</b>   | <b>2,013,650</b>  |
| Accounts payable                          | 4,740             | 4,477            | 9,217             |
| Accrued salaries and benefits             | 14,827            | 3,687            | 18,514            |
| Other accrued expenses                    | 38,677            | 5,291            | 43,968            |
| Deferred tax liabilities – noncurrent     | —                 | 13,619           | 13,619            |
| Debt                                      | 904,467           | —                | 904,467           |
| Other liabilities                         | 34,720            | 10               | 34,730            |
| <b>Total liabilities assumed</b>          | <b>997,431</b>    | <b>27,084</b>    | <b>1,024,515</b>  |
| Redeemable noncontrolling interests       | —                 | 9,132            | 9,132             |
| <b>Net assets acquired</b>                | <b>\$ 393,576</b> | <b>\$586,427</b> | <b>\$ 980,003</b> |

The fair values of assets acquired and liabilities assumed during 2014, at the corresponding acquisition dates, were as follows (in thousands):

|                                           | <b>Partnerships in Care</b> | <b>Other</b>    | <b>Total</b>     |
|-------------------------------------------|-----------------------------|-----------------|------------------|
| Cash                                      | \$ 11,674                   | \$ —            | \$ 11,674        |
| Accounts receivable                       | 7,684                       | 1,849           | 9,533            |
| Prepaid expenses and other current assets | 8,828                       | 169             | 8,997            |
| Property and equipment                    | 610,477                     | 27,203          | 637,680          |
| Goodwill                                  | 92,959                      | 32,232          | 125,191          |
| Intangible assets                         | 651                         | 204             | 855              |
| Other assets                              | 6,897                       | 3,240           | 10,137           |
| <b>Total assets acquired</b>              | <b>739,170</b>              | <b>64,897</b>   | <b>804,067</b>   |
| Accounts payable                          | 3,958                       | 93              | 4,051            |
| Accrued salaries and benefits             | 10,422                      | —               | 10,422           |
| Other accrued expenses                    | 7,166                       | 1,014           | 8,180            |
| Deferred tax liabilities – noncurrent     | 21,369                      | —               | 21,369           |
| Other liabilities                         | 7,704                       | —               | 7,704            |
| <b>Total liabilities assumed</b>          | <b>50,619</b>               | <b>1,107</b>    | <b>51,726</b>    |
| <b>Net assets acquired</b>                | <b>\$ 688,551</b>           | <b>\$63,790</b> | <b>\$752,341</b> |

**Other**

The qualitative factors comprising the goodwill acquired in the Pacific Grove, Partnerships in Care, McCallum, Croxton, Skyway, CRC, QAM, Choice, Pastoral, Mildmay Oaks, Care UK, The Manor Clinic, Belmont, Southcoast, Danshell, H&SCP, Manor Hall, Meadow View, Cleveland House, Duffy's, Discovery House and MMO acquisitions (collectively the "2014 and 2015 Acquisitions") include efficiencies derived through synergies expected by the elimination of certain redundant corporate functions and expenses, the ability to leverage call center referrals to a broader provider base, coordination of services provided across the combined network of facilities, achievement of operating efficiencies by benchmarking performance, and applying best practices throughout the combined companies.

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Transaction-related expenses comprised the following costs for the years ended December 31, 2015, 2014 and 2013 (in thousands):

|                                          | Year Ended December 31, |                 |                |
|------------------------------------------|-------------------------|-----------------|----------------|
|                                          | 2015                    | 2014            | 2013           |
| Advisory and financing commitment fees   | \$10,337                | \$ —            | \$ —           |
| Legal, accounting and other fees         | 17,768                  | 12,836          | 5,535          |
| Severance and contract termination costs | 8,466                   | 814             | 1,615          |
|                                          | <u>\$36,571</u>         | <u>\$13,650</u> | <u>\$7,150</u> |

**Priory Acquisition**

On February 16, 2016, the Company completed its acquisition of Priory Group No. 1 Limited ("Priory") for a total purchase price of approximately \$2.2 billion, including total cash consideration of approximately \$1.9 billion and 4,033,561 shares of its common stock. Priory is the leading independent provider of behavioral healthcare services in the United Kingdom.

The preliminary fair values of assets acquired and liabilities assumed in connection with the Priory acquisition are estimated as follows (in thousands). As the acquisition was recently completed on February 16, 2016, these amounts have been estimated on a preliminary basis and are subject to change as the acquisition method of accounting is finalized.

|                                           |                   |
|-------------------------------------------|-------------------|
| Cash                                      | \$ 23,000         |
| Accounts receivable                       | 62,000            |
| Prepaid expenses and other current assets | 15,000            |
| Property and equipment                    | 1,582,000         |
| Goodwill                                  | 554,500           |
| Intangible assets                         | 37,500            |
| Deferred tax assets - noncurrent          | 31,000            |
| Total assets acquired                     | <u>2,305,000</u>  |
| Accounts payable                          | 82,000            |
| Accrued salaries and benefits             | 26,000            |
| Other accrued expenses                    | 6,000             |
| Long-term debt                            | 1,348,400         |
| Other liabilities                         | 35,000            |
| Total liabilities assumed                 | <u>1,497,400</u>  |
| Net assets acquired                       | <u>\$ 807,600</u> |

**Pro Forma Information**

The consolidated statements of income for the year ended December 31, 2015 included revenue of \$883.2 million and income from continuing operations before income taxes of \$138.1 million for acquisitions completed in 2015. The consolidated statements of income for the year ended December 31, 2014 included revenue of \$161.4 million and income from continuing operations before income taxes of \$11.3 million for acquisitions completed in 2014.

The following table provides certain pro forma financial information for the Company as if the 2014 and 2015 Acquisitions and the Priory acquisition occurred as of January 1, 2014 (in thousands):

|                                                        | Year Ended December 31, |                    |
|--------------------------------------------------------|-------------------------|--------------------|
|                                                        | 2015                    | 2014               |
| Revenue                                                | <u>\$2,851,695</u>      | <u>\$2,731,176</u> |
| Income from continuing operations, before income taxes | <u>\$ 91,383</u>        | <u>\$ 76,491</u>   |

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Table of Contents**5. Other Intangible Assets**

Other identifiable intangible assets and related accumulated amortization consisted of the following as of December 31, 2015 and 2014 (in thousands):

|                                                       | Gross Carrying Amount |                      | Accumulated Amortization |                      |
|-------------------------------------------------------|-----------------------|----------------------|--------------------------|----------------------|
|                                                       | December 31,<br>2015  | December 31,<br>2014 | December 31,<br>2015     | December 31,<br>2014 |
| <b>Intangible assets subject to amortization:</b>     |                       |                      |                          |                      |
| Contract intangible assets                            | \$ 2,100              | \$ 2,100             | \$ (1,750)               | \$ (1,330)           |
| Non-compete agreements                                | 1,247                 | 1,247                | (1,247)                  | (1,155)              |
|                                                       | 3,347                 | 3,347                | (2,997)                  | (2,485)              |
| <b>Intangible assets not subject to amortization:</b> |                       |                      |                          |                      |
| Licenses and accreditations                           | 11,479                | 9,184                | —                        | —                    |
| Trade names                                           | 37,800                | 3,000                | —                        | —                    |
| Certificates of need                                  | 9,946                 | 8,590                | —                        | —                    |
|                                                       | 59,225                | 20,774               | —                        | —                    |
| <b>Total</b>                                          | <b>\$ 62,572</b>      | <b>\$ 24,121</b>     | <b>\$ (2,997)</b>        | <b>\$ (2,485)</b>    |

Amortization expense related to definite-lived intangible assets was \$0.5 million, \$0.6 million and \$0.8 million for the years ended December 31, 2015, 2014 and 2013, respectively. Estimated amortization expense for the years ending December 31, 2016, 2017, 2018, 2019 and 2020 is \$0.4 million, \$0 million, \$0 million, \$0 and \$0, respectively. The Company's licenses and accreditations, trade names and certificate of need intangible assets have indefinite lives and are, therefore, not subject to amortization.

**6. Discontinued Operations**

The results of operations of certain terminated management contracts have been reported as discontinued operations in the accompanying consolidated financial statements.

A summary of results from discontinued operations is as follows (in thousands):

|                                                                            | Year Ended December 31, |                |                |
|----------------------------------------------------------------------------|-------------------------|----------------|----------------|
|                                                                            | 2015                    | 2014           | 2013           |
| <b>Revenue</b>                                                             | <b>\$ —</b>             | <b>\$ —</b>    | <b>\$ —</b>    |
| <b>Net income (loss) from discontinued operations, net of income taxes</b> | <b>\$111</b>            | <b>\$(192)</b> | <b>\$(691)</b> |



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Long-term debt consisted of the following (in thousands):

|                                                             | December 31, 2015   | December 31, 2014   |
|-------------------------------------------------------------|---------------------|---------------------|
| <b>Amended and Restated Senior Credit Facility:</b>         |                     |                     |
| Senior Secured Term A Loans                                 | \$ 500,750          | \$ 527,500          |
| Senior Secured Term B Loans                                 | 495,000             | —                   |
| Senior Secured Revolving Line of Credit                     | 158,000             | —                   |
| 12.875% Senior Notes due 2018                               | —                   | 97,500              |
| 6.125% Senior Notes due 2021                                | 150,000             | 150,000             |
| 5.125% Senior Notes due 2022                                | 300,000             | 300,000             |
| 5.625% Senior Notes due 2023                                | 650,000             | —                   |
| 9.0% and 9.5% Revenue Bonds                                 | 22,410              | 22,625              |
| Less: unamortized debt issuance costs, discount and premium | (35,416)            | (17,990)            |
|                                                             | <u>2,240,744</u>    | <u>1,079,635</u>    |
| Less: current portion                                       | (45,360)            | (26,965)            |
| <b>Long-term debt</b>                                       | <b>\$ 2,195,384</b> | <b>\$ 1,052,670</b> |

***Amended and Restated Senior Credit Facility***

The Company entered into a senior secured credit facility (the "Senior Secured Credit Facility") on April 1, 2011. On December 31, 2012, the Company entered into an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") which amended and restated the Senior Secured Credit Facility ("Amended and Restated Senior Credit Facility").

On February 13, 2014, the Company entered into a Fourth Amendment (the "Fourth Amendment") to the Amended and Restated Credit Agreement, to increase the size of the Amended and Restated Senior Credit Facility and extend the maturity date thereof, which resulted in the Company having a revolving line of credit of up to \$300.0 million and term loans of \$300.0 million. The Fourth Amendment also reduced the interest rates applicable to the Amended and Restated Senior Credit Facility and provided increased flexibility to the Company in terms of the financial and other restrictive covenants. The Fourth Amendment also provides for a \$150.0 million incremental credit facility, with the potential for unlimited additional incremental amounts, provided the Company meets certain financial ratios, in each case subject to customary conditions precedent to borrowing.

On June 16, 2014, the Company entered into a Fifth Amendment (the "Fifth Amendment") to the Amended and Restated Credit Agreement. The Fifth Amendment specifically permitted the Company's acquisition of Partnerships in Care, gave the Company the ability to incur a tranche of term loan B debt in the future through its incremental credit facility, and modified certain of the restrictive covenants on miscellaneous investments and incurrence of miscellaneous liens. Finally, the Fifth Amendment provided increased flexibility to the Company in terms of its financial covenants.

On December 15, 2014, the Company entered into a Sixth Amendment (the "Sixth Amendment") to our Amended and Restated Credit Agreement. Pursuant to the Sixth Amendment, the Company incurred \$235.0 million of additional term loans. A portion of the additional term loan advance was used to prepay its outstanding revolving loans, and a portion of the additional term loan advance is being held as cash on the consolidated balance sheet. The Sixth Amendment also specifically permitted the acquisition of CRC. In connection with the acquisition of CRC, the Sixth Amendment (i) imposed a temporary reserve on the Company's revolving credit facility in the amount of \$110.0 million in order to preserve such reserved amounts for later borrowings to partially fund the consideration for the acquisition of CRC (subject to limited conditionality provisions) (the reserve is no longer in effect due to the acquisition of CRC), (ii) permitted the incurrence of an additional incremental term loan facility under the Amended and Restated Credit Agreement partially to fund the consideration for the acquisition of CRC (subject to limited conditionality provisions) and (iii) permitted the issuance of additional senior unsecured indebtedness or senior unsecured bridge indebtedness partially to fund the consideration for the acquisition of CRC.

The Sixth Amendment also permits the Company, subject to certain consents, to add one or more foreign borrowers and/or request revolving loans and letters of credit in foreign currencies.

On February 6, 2015, the Company entered into a Seventh Amendment (the "Seventh Amendment") to our Amended and Restated Credit Agreement. The Seventh Amendment added Citibank, N.A. as an "L/C Issuer" under the Amended and Restated Credit Agreement in order to permit the rollover of CRC's existing letters of credit into the Amended and Restated Credit Agreement and increased both the Company's Letter of Credit Sublimit and Swing Line Sublimit to \$20.0 million.

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On February 11, 2015, the Company entered into a First Incremental Facility Amendment (the "First Incremental Amendment") to our Amended and Restated Credit Agreement. The First Incremental Amendment activated a new \$500.0 million incremental Term Loan B facility (the "TLB Facility") that was added to our Amended and Restated Senior Credit Facility, subject to limited conditionality provisions. Borrowings under the TLB Facility were used to fund a portion of the purchase price for the acquisition of CRC.

On April 22, 2015, the Company entered into an Eighth Amendment (the "Eighth Amendment") to our Amended and Restated Credit Agreement. The Eighth Amendment changed the definition of "Change of Control" in part to remove a provision whose purpose was, when calculating whether a majority of incumbent directors have approved new directors, that any incumbent director that became a director as a result of a threatened or actual proxy contest was not counted in such calculation.

On January 25, 2016, the Company entered into the Ninth Amendment (the "Ninth Amendment") to the Amended and Restated Senior Credit Facility. The Ninth Amendment modifies certain definitions and provides increased flexibility to the Company in terms of its financial covenants. Our baskets for permitted investments were also increased to provide increased flexibility for us to invest in non-wholly owned subsidiaries, joint ventures and foreign subsidiaries. We may now invest in non-wholly owned subsidiaries and joint ventures up to 10.0% of our and our subsidiaries' total assets in any four consecutive fiscal quarter period, and up to 12.5% of our and our subsidiaries' total assets during the term of the Amended and Restated Credit Agreement. We may also invest in foreign subsidiaries that are not loan parties up to 10% of our and our subsidiaries' total assets in any consecutive four fiscal quarter period, and up to 15% of our and our subsidiaries' total assets during the term of the Amended and Restated Credit Agreement. The foregoing permitted investments are subject to an aggregate cap of 25% of our and our subsidiaries' total assets in any fiscal year.

On February 16, 2016, the Company entered into a Second Incremental Facility Amendment (the "Second Incremental Amendment") to our Amended and Restated Credit Agreement. The Second Incremental Amendment activated a new \$955.0 million incremental Term Loan B facility (the "New TLB Facility") and added \$135.0 million to the Term Loan A facility (the "TLA Facility") to the Amended and Restated Senior Secured Credit Facility, subject to limited conditionality provisions. Borrowings under the New TLB Facility were used to fund a portion of the purchase price for the acquisition of Priory and the fees and expenses for such acquisition and the related financing transactions. Borrowings under the TLA Facility were used to pay down the majority of our \$300.0 million revolving credit facility.

The Company had \$135.7 million of availability under the revolving line of credit as of December 31, 2015. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our TLA Facility of \$10.0 million for March 31, 2016 to December 31, 2016, \$13.4 million for September 30, 2017 to December 31, 2017, and \$16.7 million for March 31, 2018 to December 31, 2018, with the remaining principal balance of the TLA Facility due on the maturity date of February 13, 2019. On December 15, 2014, prior to the execution of the Sixth Amendment, the Company prepaid the December 31, 2014 quarterly term loan principal payment of \$1.9 million. The Company is required to repay the Existing TLB Facility in equal quarterly installments of \$1.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Existing TLB Facility due on February 11, 2022. The Company is required to repay the New TLB Facility in equal quarterly installments of approximately \$2.4 million on the last business day of each March, June, September and December, with the outstanding principal balance of the TLB Facility due on February 16, 2023.

Borrowings under the Amended and Restated Senior Credit Facility are guaranteed by each of the Company's wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of the assets of the Company and such subsidiaries. Borrowings with respect to the TLA Facility and the Company's revolving credit facility (collectively, "Pro Rata Facilities") under the Amended and Restated Credit Agreement bear interest at a rate tied to Acadia's Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$40.0 million of unrestricted and unencumbered cash to consolidated EBITDA, in each case as defined in the Amended and Restated Credit Agreement). The Applicable Rate (as defined in the Amended and Restated Credit Agreement) for the Pro Rata Facilities was 3.0% for Eurodollar Rate Loans (as defined in the Amended and Restated Credit Agreement) and 2.25% for Base Rate Loans (as defined in the Amended and Restated Credit Agreement) at December 31, 2015. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) (based upon the LIBOR Rate (as defined in the Amended and Restated Credit Agreement) prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As of December 31, 2015, the Pro Rata Facilities bore interest at a rate of LIBOR plus 3.0%. In addition, the Company is required to pay a commitment fee on undrawn amounts under the revolving line of credit.

The Amended and Restated Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative, negative and financial covenants, including a fixed charge coverage ratio, consolidated leverage ratio and senior secured leverage ratio. The Company may be required to pay all of its indebtedness immediately if it defaults on any of the numerous financial or other restrictive covenants contained in any of its material debt agreements. As of December 31, 2015, the Company was in compliance with such covenants.

**Table of Contents*****Senior Notes******12.875% Senior Notes due 2018***

On November 1, 2011, the Company issued \$150.0 million of 12.875% Senior Notes due 2018 (the "12.875% Senior Notes") at 98.323% of the aggregate principal amount of \$150.0 million, a discount of \$2.5 million. The notes bear interest at a rate of 12.875% per annum. The Company pays interest on the notes semi-annually, in arrears, on November 1 and May 1 of each year.

On March 12, 2013, the Company redeemed \$52.5 million in principal amount of the 12.875% Senior Notes using a portion of the net proceeds of its December 2012 equity offering pursuant to the provision in the indenture permitting an optional redemption with equity proceeds of up to 35% of the principal amount of 12.875% Senior Notes. The 12.875% Senior Notes were redeemed at a redemption price of 112.875% of the principal amount thereof plus accrued and unpaid interest to, but not including, the redemption date in accordance with the provisions of the indenture governing the 12.875% Senior Notes. As part of the redemption of 35% of the 12.875% Senior Notes, the Company recorded a debt extinguishment charge of \$9.4 million, including the premium and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the consolidated statements of income.

On September 21, 2015, the Company purchased approximately \$88.3 million aggregate principal amount of 12.875% Senior Notes in connection with a tender offer for any and all of the 12.875% Senior Notes. The notes purchased represent 90.6% of the outstanding \$97.5 million principal amount of 12.875% Senior Notes. The 12.875% Senior Notes were purchased at a price of 107.875% of the principal amount thereof plus accrued and unpaid interest to, but not including, September 21, 2015. On September 18, 2015, the Company delivered a notice to redeem all \$9.2 million in principal amount of the 12.875% Senior Notes remaining outstanding following the consummation of the tender offer. The redemption was effective November 1, 2015 with payment made to the note holders on November 2, 2015. The Company redeemed the remaining 12.875% Senior Notes in accordance to their terms, and therefore no debt remains outstanding under the 12.875% Senior Notes. In connection with the purchase of notes, the Company recorded a debt extinguishment charge of approximately \$10.8 million at the year ended December 31, 2015, including the premium and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the accompanying consolidated statements of income.

***6.125% Senior Notes due 2021***

On March 12, 2013, the Company issued \$150.0 million of 6.125% Senior Notes due 2021 (the "6.125% Senior Notes"). The 6.125% Senior Notes mature on March 15, 2021 and bear interest at a rate of 6.125% per annum, payable semi-annually in arrears on March 15 and September 15 of each year.

***5.125% Senior Notes due 2022***

On July 1, 2014, the Company issued \$300.0 million of 5.125% Senior Notes due 2022 (the "5.125% Senior Notes"). The 5.125% Senior Notes mature on July 1, 2022 and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2015.

***5.625% Senior Notes due 2023***

On February 11, 2015, the Company issued \$375.0 million of 5.625% Senior Notes due 2023 (the "5.625% Senior Notes"). The 5.625% Senior Notes mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2015.

On September 21, 2015, the Company issued \$275.0 million of additional 5.625% Senior Notes. The additional notes form a single class of debt securities with the existing 5.625% Senior Notes. Giving effect to this issuance, the Company has outstanding an aggregate of \$650.0 million of 5.625% Senior Notes.

**Table of Contents****6.500% Senior Notes due 2024**

On February 16, 2016, we issued \$390.0 million of 6.500% Senior Notes due 2024 (the "6.500% Senior Notes"). The 6.500% Senior Notes mature on March 1, 2024 and bear interest at a rate of 6.500% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016.

The indentures governing the 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes and 6.500% Senior Notes (together, the "Senior Notes") contain covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets; and (vii) create liens on assets.

The Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

The Company may redeem the Senior Notes at its option, in whole or part, at the dates and amounts set forth in the indentures.

**9.0% and 9.5% Revenue Bonds**

On November 11, 2012, in connection with the acquisition of Park Royal, the Company assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5% ("9.0% and 9.5% Revenue Bonds"), respectively. The 9.0% bonds in the amount of \$7.5 million have a maturity date of December 1, 2030 and require yearly principal payments beginning in 2013. The 9.5% bonds in the amount of \$15.5 million have a maturity date of December 1, 2040 and require yearly principal payments beginning in 2031. The principal payments establish a bond sinking fund to be held with the trustee and shall be sufficient to redeem the principal amounts of the 9.0% and 9.5% Revenue Bonds on their respective maturity dates. As of December 31, 2015 and 2014, \$2.3 million was recorded within other assets on the balance sheet related to the debt service reserve fund requirements. The yearly principal payments, which establish a bond sinking fund, will increase the debt service reserve fund requirements. The bond premium amount of \$2.6 million is amortized as a reduction of interest expense over the life of the revenue bonds using the effective interest method.

**Debt Issuance Costs**

Debt issuance costs are deferred and amortized to interest expense over the term of the related debt. Debt issuance costs at December 31, 2015 were \$37.6 million, net of accumulated amortization of \$12.6 million. Debt issuance costs at December 31, 2014 were \$20.9 million, net of accumulated amortization of \$9.5 million. Amortization expense related to debt issuance costs, which is reported as interest expense, was \$7.1 million and \$3.2 million, respectively, for the years ended December 31, 2015 and 2014. Estimated amortization of debt issuance costs for the years ending December 31, 2016, 2017, 2018, 2019 and 2020 is \$6.5 million, \$6.6 million, \$6.7 million, \$5.1 million and \$5.2 million, respectively.

**Other**

The aggregate maturities of long-term debt as of December 31, 2015 were as follows (in thousands):

|              |                           |
|--------------|---------------------------|
| 2016         | \$ 45,360                 |
| 2017         | 58,755                    |
| 2018         | 72,155                    |
| 2019         | 345,555                   |
| 2020         | 5,330                     |
| Thereafter   | 1,749,005                 |
| <b>Total</b> | <b><u>\$2,276,160</u></b> |

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In connection with the acquisition of Priory on February 16, 2016, the Company borrowed \$955.0 million under its New TLB Facility, issued \$390.0 million of 6.500% Senior Notes and borrowed \$135.0 million under the TLA Facility. The aggregate maturities of the long-term debt following the acquisition of Priory on February 16, 2016 were as follows (in thousands):

|              |                           |
|--------------|---------------------------|
| 2016         | \$ 65,035                 |
| 2017         | 81,805                    |
| 2018         | 98,580                    |
| 2019         | 449,605                   |
| 2020         | 14,880                    |
| Thereafter   | 2,903,255                 |
| <b>Total</b> | <b><u>\$3,613,160</u></b> |

**8. Equity*****Preferred Stock***

The Company's amended and restated certificate of incorporation provides that up to 10,000,000 shares of preferred stock may be issued. The Board of Directors has the authority to issue preferred stock in one or more series and to fix for each series the voting powers (full, limited or none), and the designations, preferences and relative participating, optional or other special rights and qualifications, limitations or restrictions on the stock and the number of shares constituting any series and the designations of this series, without any further vote or action by the stockholders.

***Common Stock***

The Company's amended and restated certificate of incorporation currently provides that up to 90,000,000 shares of common stock may be issued. Holders of the Company's common stock are entitled to one vote for each share held of record on all matters on which stockholders may vote. There are no preemptive, conversion, redemption or sinking fund provisions applicable to shares of the Company's common stock. In the event of liquidation, dissolution or winding up, holders of the Company's common stock are entitled to share ratably in the assets available for distribution, subject to any prior rights of any holders of preferred stock then outstanding. Delaware law prohibits the Company from paying any dividends unless it has capital surplus or net profits available for this purpose. In addition, the Amended and Restated Senior Credit Facility imposes restrictions on the Company's ability to pay dividends.

In February 2016, the Company filed definitive proxy materials with the SEC related to the Company's Special Meeting of the Stockholders to be held on March 3, 2016, where the Company's stockholders will be asked to amend the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of its common stock from 90,000,000 shares to 180,000,000 shares.

***Equity Offerings***

On June 17, 2014, the Company completed the offering of 8,881,794 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that the Company granted to the underwriters as part of the offering) at a price of \$44.00 per share. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discount of \$15.6 million and additional offering-related costs of \$0.8 million, were \$374.4 million. The Company used the net offering proceeds to fund a portion of the consideration for the acquisition of Partnerships in Care.

On February 11, 2015, the Company completed its acquisition of CRC for total consideration of approximately \$1.3 billion. As consideration for the acquisition, the Company issued 5,975,326 shares of its common stock to certain holders of CRC common stock and repaid CRC's outstanding indebtedness.

On May 11, 2015, the Company completed the offering of 5,175,000 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that the Company granted to the underwriters as part of the offering) at a price of \$66.50 per share. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discount of \$12.0 million and additional offering-related costs of \$0.8 million, were \$331.3 million. The Company used the net offering proceeds to repay outstanding indebtedness and fund acquisitions.



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On January 12, 2016, the Company completed the offering of 11,500,000 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that the Company granted to the underwriters as part of the offering) at a price of \$61.00 per share. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discount of \$15.8 million and additional offering-related costs of \$0.7 million, were \$685.0 million. The Company used the net offering proceeds to fund a portion of the purchase price for the acquisition of Priory.

On February 16, 2016, the Company completed its acquisition of Priory for a total purchase price of approximately \$2.2 billion including total cash consideration of approximately \$1.9 billion and the issuance of 4,033,561 shares of our common stock.

**9. Equity-Based Compensation*****Equity Incentive Plans***

The Company issues stock-based awards, including stock options, restricted stock and restricted stock units, to certain officers, employees and non-employee directors under the Acadia Healthcare Company, Inc. Incentive Compensation Plan (the "Equity Incentive Plan"). As of December 31, 2015, a maximum of 4,700,000 shares of the Company's common stock were authorized for issuance as stock options, restricted stock and restricted stock units or other share-based compensation under the Equity Incentive Plan, of which 1,921,673 were available for future grant. Stock options may be granted for terms of up to ten years. The Company recognizes expense on all share-based awards on a straight-line basis over the requisite service period of the entire award. Grants to employees generally vest in annual increments of 25% each year, commencing one year after the date of grant. The exercise prices of stock options are equal to the most recent closing price of the Company's common stock on the date of grant.

The Company recognized \$20.5 million, \$10.1 million and \$5.2 million in equity-based compensation expense for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, there was \$47.9 million of unrecognized compensation expense related to unvested options, restricted stock and restricted stock units, which is expected to be recognized over the remaining weighted average vesting period of 1.4 years.

As of December 31, 2015, there were no warrants outstanding and exercisable. The Company recognized a deferred income tax benefit of \$8.4 million and \$4.1 million for the years ended December 31, 2015 and 2014, respectively, related to equity-based compensation expense. The actual tax benefit realized from stock options exercised during the years ended December 31, 2015, 2014 and 2013 was \$0.3 million, \$4.6 million and \$1.8 million, respectively.

Stock option activity during 2014 and 2015 was as follows (aggregate intrinsic value in thousands):

|                                          | Number of<br>Options | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (in years) | Aggregate<br>Intrinsic<br>Value |
|------------------------------------------|----------------------|---------------------------------------|--------------------------------------------------------------------|---------------------------------|
| Options outstanding at January 1, 2014   | 798,809              | \$ 21.93                              | 8.20                                                               | \$ 10,700                       |
| Options granted                          | 226,663              | 49.80                                 | 9.25                                                               | 209                             |
| Options exercised                        | (210,199)            | 14.93                                 | N/A                                                                | 4,994                           |
| Options cancelled                        | (77,851)             | 27.85                                 | N/A                                                                | N/A                             |
| Options outstanding at December 31, 2014 | 737,422              | 32.19                                 | 8.09                                                               | 14,512                          |
| Options granted                          | 204,700              | 63.07                                 | 9.21                                                               | 1,724                           |
| Options exercised                        | (214,079)            | 42.75                                 | N/A                                                                | 9,890                           |
| Options cancelled                        | (33,300)             | 46.53                                 | N/A                                                                | N/A                             |
| Options outstanding at December 31, 2015 | 694,743              | \$ 42.87                              | 7.70                                                               | \$ 20,717                       |
| Options exercisable at December 31, 2014 | 91,947               | \$ 28.87                              | 6.30                                                               | \$ 3,326                        |
| Options exercisable at December 31, 2015 | 106,330              | \$ 36.41                              | 5.83                                                               | \$ 4,968                        |

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Restricted stock activity during 2014 and 2015 was as follows:

|                               | Number of<br>Shares | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|-------------------------------|---------------------|-------------------------------------------------|
| Unvested at January 1, 2014   | 461,697             | \$ 24.96                                        |
| Granted                       | 468,484             | 48.99                                           |
| Cancelled                     | (75,369)            | 36.36                                           |
| Vested                        | (132,784)           | 22.81                                           |
| Unvested at December 31, 2014 | 722,028             | \$ 39.77                                        |
| Granted                       | 503,052             | 62.67                                           |
| Cancelled                     | (44,900)            | 49.55                                           |
| Vested                        | (235,618)           | 34.93                                           |
| Unvested at December 31, 2015 | 944,562             | \$ 52.74                                        |

Restricted stock unit activity during 2014 and 2015 was as follows:

|                               | Number of<br>Units | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|-------------------------------|--------------------|-------------------------------------------------|
| Unvested at January 1, 2014   | 95,751             | \$ 23.05                                        |
| Granted                       | 108,449            | 50.75                                           |
| Cancelled                     | —                  | —                                               |
| Vested                        | (79,087)           | 21.81                                           |
| Unvested at December 31, 2014 | 125,113            | \$ 38.73                                        |
| Granted                       | 217,994            | 61.77                                           |
| Cancelled                     | —                  | —                                               |
| Vested                        | (125,023)          | 32.38                                           |
| Unvested at December 31, 2015 | 218,084            | \$ 56.97                                        |

The grant-date fair value of the Company's stock options is estimated using the Black-Scholes option pricing model. The following table summarizes the grant-date fair value of options and the assumptions used to develop the fair value estimates for options granted during the year ended December 31, 2015 and 2014:

|                                                   | December 31, 2015 | December 31, 2014 |
|---------------------------------------------------|-------------------|-------------------|
| Weighted average grant-date fair value of options | \$ 21.78          | \$ 17.14          |
| Risk-free interest rate                           | 1.5%              | 1.7%              |
| Expected volatility                               | 35%               | 36%               |
| Expected life (in years)                          | 5.5               | 5.5               |

The Company's estimate of expected volatility for stock options is based upon the volatility of guideline companies given the lack of sufficient historical trading experience of the Company's common stock. The risk-free interest rate is the approximate yield on United States Treasury Strips having a life equal to the expected option life on the date of grant. The expected life is an estimate of the number of years an option will be held before it is exercised.

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Income tax expense (benefit) from continuing operations consists of the following for the periods presented (in thousands):

|                                           | Year Ended December 31, |                 |                 |
|-------------------------------------------|-------------------------|-----------------|-----------------|
|                                           | 2015                    | 2014            | 2013            |
| Current:                                  |                         |                 |                 |
| Federal                                   | \$ (218)                | \$30,834        | \$13,202        |
| State                                     | 4,078                   | 3,959           | 2,513           |
| Foreign                                   | 5,915                   | 914             | 177             |
| Total current                             | 9,775                   | 35,707          | 15,892          |
| Deferred:                                 |                         |                 |                 |
| Federal                                   | 40,635                  | 2,667           | 7,802           |
| State                                     | 5,349                   | 353             | 1,786           |
| Foreign                                   | (2,371)                 | 4,195           | 495             |
| Total deferred provision                  | 43,613                  | 7,215           | 10,083          |
| Provision for (benefit from) income taxes | <u>\$53,388</u>         | <u>\$42,922</u> | <u>\$25,975</u> |

The following table presents the income taxes associated with continuing operations and discontinued operations as reflected in the consolidated statements of income (in thousands):

|                         | Year Ended December 31, |                 |                 |
|-------------------------|-------------------------|-----------------|-----------------|
|                         | 2015                    | 2014            | 2013            |
| Continuing operations   | <u>\$53,388</u>         | <u>\$42,922</u> | <u>\$25,975</u> |
| Discontinued operations | (88)                    | (22)            | (544)           |
| Total                   | <u>\$53,300</u>         | <u>\$42,900</u> | <u>\$25,431</u> |



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A reconciliation of the U.S. federal statutory rate, from continuing operations, to the effective tax rate is as follows for the periods presented:

|                                                           | Year Ended December 31, |              |              |
|-----------------------------------------------------------|-------------------------|--------------|--------------|
|                                                           | 2015                    | 2014         | 2013         |
| U.S. federal statutory rate on income before income taxes | 35.0%                   | 35.0%        | 35.0%        |
| Impact of foreign operations (1)                          | (10.0)                  | (4.2)        | (0.3)        |
| State income taxes, net of federal tax effect             | 4.8                     | 2.3          | 4.9          |
| Permanent differences                                     | 4.2                     | 1.1          | 0.8          |
| Change in valuation allowance                             | 1.2                     | (0.1)        | (0.3)        |
| Other                                                     | (2.8)                   | (0.1)        | (2.6)        |
| Effective income tax rate                                 | <u>32.4%</u>            | <u>34.0%</u> | <u>37.5%</u> |

- (1) Our effective tax rate reflects the benefit of having a portion of our operations outside the U.S., most of which are taxed at statutory rates lower than the statutory U.S. rate of 35%, the benefit of some income being partially exempt from income taxes due to various operating and financing activities and certain asset basis changes.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities of the Company at December 31, 2015 and December 31, 2014 were as follows (in thousands):

|                                                                       | December 31,     |                    |
|-----------------------------------------------------------------------|------------------|--------------------|
|                                                                       | 2015             | 2014               |
| <b>Deferred tax assets:</b>                                           |                  |                    |
| Net operating losses and tax credit carryforwards – federal and state | \$ 47,695        | \$ 5,082           |
| Bad debt allowance                                                    | 14,050           | 9,028              |
| Accrued compensation and severance                                    | 20,150           | 11,517             |
| Pension reserves                                                      | 536              | 1,975              |
| Insurance reserves                                                    | 15,449           | 4,621              |
| Leases                                                                | 2,675            | 850                |
| Accrued expenses                                                      | 5,324            | 41                 |
| Other assets                                                          | <u>3,551</u>     | <u>1,989</u>       |
| Total gross deferred tax assets                                       | 109,430          | 35,103             |
| Less: valuation allowance                                             | <u>(16,571)</u>  | <u>(4,734)</u>     |
| Deferred tax assets                                                   | 92,859           | 30,369             |
| <b>Deferred tax liabilities:</b>                                      |                  |                    |
| Fixed asset basis difference                                          | (11,392)         | (38,147)           |
| Prepaid items                                                         | (3,113)          | (1,705)            |
| Intangible assets                                                     | (48,918)         | (21,094)           |
| Other liabilities                                                     | <u>(4,258)</u>   | <u>(7)</u>         |
| Total deferred tax liabilities                                        | <u>(67,681)</u>  | <u>(60,953)</u>    |
| <b>Total net deferred tax asset (liability)</b>                       | <b>\$ 25,178</b> | <b>\$ (30,584)</b> |

The above amounts are classified as current or long-term in the consolidated balance sheets in accordance with the asset or liability to which they relate or, when applicable, based on the expected timing of the reversals of existing temporary differences. Current deferred tax assets at December 31, 2014 were \$20.2 million. The Company has elected early adoption prospectively of ASU 2015-17, as permitted, as of December 31, 2015. Thus, there were no current deferred tax assets at December 31, 2015. Non-current deferred tax assets at December 31, 2015 and 2014 were \$49.1 and \$13.1 million, respectively. Non-current deferred tax liabilities at December 31, 2015 and 2014 were \$23.9 million and \$63.9 million, respectively.

The Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized. As of December 31, 2015 and 2014, the Company carried a valuation allowance against deferred tax assets of \$16.6 million and \$4.7 million, respectively.

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The domestic net operating loss carryforwards the company has acquired for federal net operating loss carryforwards are approximately \$88.0 million as of December 31, 2015. The foreign net operating loss carryforwards as of December 31, 2015 and 2014 are approximately \$14.7 million and \$23.7 million, respectively, and have no expiration. In addition, the Company has certain foreign tax credits which do not have an expiration date.

The Company has state net operating loss carryforwards at December 31, 2015 and 2014 of approximately \$213.9 million and \$7.1 million, respectively. These net operating loss carryforwards, if not used to offset future taxable income, will expire from 2031 to 2033. In addition, the Company has certain state tax credits which will begin to expire in 2026 if not utilized.

Income taxes receivable was \$6.5 million and \$3.4 million at December 31, 2015 and 2014, respectively, and was included in other current assets in the consolidated balance sheet. Income taxes payable of \$7.4 and \$0.1 million at December 31, 2015 and 2014 was included in other accrued liabilities in the consolidated balance sheet. In addition, income taxes payable of \$5.4 million and \$2.4 million at December 31, 2015 and 2014, respectively, were included in other liabilities in the consolidated balance sheet. The balance in other liabilities relates to certain unrecognized tax benefits.

A reconciliation of the beginning and ending amount of unrecognized income tax benefits is as follows (in thousands):

|                                                                           | 2015     | 2014    | 2013    |
|---------------------------------------------------------------------------|----------|---------|---------|
| Balance at January 1                                                      | \$ 2,923 | \$1,893 | \$1,195 |
| Additions based on tax positions related to the current year              | 1,516    | —       | 321     |
| Additions for tax positions of prior years                                | 2,874    | 1,030   | 377     |
| Reductions as a result of the lapse of applicable statutes of limitations | (2,802)  | —       | —       |
| Balance at December 31                                                    | \$ 4,511 | \$2,923 | \$1,893 |

The Company's continuing accounting policy is to recognize interest and penalties related to income tax matters as a component of tax expense in the consolidated statements of income. The Company recognized interest and penalties relative to uncertain tax positions of \$0.3 million, \$0.3 million and \$0.1 million for the period ending December 31, 2015, 2014 and 2013, respectively. It is possible the amount of unrecognized tax benefit could change in the next twelve months as a result of a lapse of the statute of limitations and settlements with taxing authorities; however, management does not anticipate the change will have a material impact on the Company's consolidated financial statements.

The Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. The Company and its subsidiaries file income tax returns in federal and in many state and local jurisdictions as well as foreign jurisdictions. The Company is currently under examination by the Internal Revenue Service ("IRS") for the calendar year 2013. The Company may be subject to examination by IRS for calendar year 2012 through 2015. Additionally, any net operating losses that were generated in prior years and utilized in these years may also be subject to examination by the IRS. In foreign jurisdictions, the Company may be subject to examination for calendar years 2011 through 2015. Generally, for state tax purposes, the Company's 2011 through 2015 tax years remain open for examination by the tax authorities. At the date of this report there were no audits or inquiries that had progressed sufficiently to predict their ultimate outcome.

One of the Company's Puerto Rico subsidiaries was granted a tax exemption for which a tax credit of up to 15% of eligible payroll expenses is available to offset up to 50% of the income taxes attributed to that entity. The tax exemption will expire on December 31, 2017.

The Company does not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries as it is the Company's intention to utilize those earnings in the foreign operations for an indefinite period of time. At December 31, 2015, undistributed earnings of the foreign subsidiaries amounted to approximately \$48.0 million. The amount of unrecognized deferred tax liability related to these temporary differences is not practicable at this time as this could be significantly impacted by the source location and amount of the distribution, the underlying tax rate already paid on the earnings, foreign withholding taxes, foreign currency translation adjustment and the opportunity to use foreign tax credits.

## 11. Derivatives

The Company entered into foreign currency forward contracts during years ended December 31, 2015 and 2014 in connection with acquisitions in the United Kingdom. The foreign currency forward contracts limited the economic risk of changes in the foreign exchange rate between USD and GBP associated with the payment of the purchase price in GBP. These foreign currency forward contracts did not meet the hedge accounting criteria under Accounting Standards Codification 815, *Derivatives and Hedging*. As such, losses (gains) associated with changes in fair value of \$1.9 million and \$(15.3) million for the years ended December 31, 2015 and 2014, respectively, have been recorded in the consolidated statements of income based on final settlements of these contracts.

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Table of Contents**12. Fair Value Measurements**

The carrying amounts reported for cash and cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities approximate fair value because of the short-term maturity of these instruments.

The carrying amounts and fair values of the Company's Amended and Restated Senior Credit Facility, 12.875% Senior Notes, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 9.0% and 9.5% Revenue Bonds and contingent consideration liability as of December 31, 2015 and 2014 were as follows (in thousands):

|                                             | Carrying Amount |           | Fair Value   |           |
|---------------------------------------------|-----------------|-----------|--------------|-----------|
|                                             | December 31,    |           | December 31, |           |
|                                             | 2015            | 2014      | 2015         | 2014      |
| Amended and Restated Senior Credit Facility | \$977,861       | \$525,576 | \$977,861    | \$525,576 |
| 12.875% Senior Notes due 2018               | \$ —            | \$ 96,420 | \$ —         | \$109,688 |
| 6.125% Senior Notes due 2021                | \$147,082       | \$150,000 | \$149,288    | \$153,000 |
| 5.125% Senior Notes due 2022                | \$294,749       | \$300,000 | \$275,590    | \$295,500 |
| 5.625% Senior Notes due 2023                | \$639,431       | \$ —      | \$604,262    | \$ —      |
| 9.0% and 9.5% Revenue Bonds                 | \$ 23,621       | \$ 24,274 | \$ 23,621    | \$ 24,274 |
| Contingent consideration liabilities        | \$ 667          | \$ 3,000  | \$ 667       | \$ 3,000  |

The Company's Amended and Restated Senior Credit Facility, 12.875% Senior Notes, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes and 9.0% and 9.5% Revenue Bonds were categorized as Level 2 in the GAAP fair value hierarchy. Fair values were based on trading activity among the Company's lenders and the average bid and ask price as determined using published rates.

The fair value of the contingent consideration liabilities were categorized as Level 3 in the GAAP fair value hierarchy. The contingent consideration liabilities were valued using a probability-weighted discounted cash flow method. This analysis reflected the contractual terms of the purchase agreements and utilized assumptions with regard to future earnings, probabilities of achieving such future earnings and a discount rate.

**13. Leases**

The Company is obligated under certain operating leases to rent space for its facilities and other office space. The original terms of the leases typically range from five to ten years, with optional renewal periods.

Aggregate minimum lease payments under non-cancelable operating leases with original or remaining lease terms in excess of one year were as follows as of December 31, 2015 (in thousands):

|                                         |                  |
|-----------------------------------------|------------------|
| 2016                                    | \$ 29,229        |
| 2017                                    | 23,675           |
| 2018                                    | 18,513           |
| 2019                                    | 14,220           |
| 2020                                    | 11,047           |
| Thereafter                              | 56,522           |
| <b>Total minimum rental obligations</b> | <b>\$153,206</b> |

During the years ended December 31, 2015, 2014 and 2013, rent expense was \$32.5 million, \$12.2 million and \$10.0 million, respectively.

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Table of Contents**14. Commitments and Contingencies**

The Company is, from time to time, subject to various claims and legal actions that arise in the ordinary course of the Company's business, including claims for damages for personal injuries, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance. In the opinion of management, the Company is not currently a party to any proceeding that would individually or in the aggregate have a material adverse effect on the Company's business, financial condition or results of operations.

**15. Segment Information**

The Company operates in one line of business, which is operating acute inpatient psychiatric facilities, specialty treatment facilities, residential treatment centers and facilities providing outpatient behavioral healthcare services. As management reviews the operating results of its facilities in the United States (the "U.S. Facilities") and its facilities in the United Kingdom (the "U.K. Facilities") separately to assess performance and make decisions, the Company's operating segments include its U.S. Facilities and U.K. Facilities. At December 31, 2015, the U.S. Facilities included 204 behavioral healthcare facilities with approximately 7,700 beds in 39 states and Puerto Rico, and the U.K. Facilities included 54 behavioral healthcare facilities with approximately 2,200 beds in the United Kingdom.

The following tables set forth the financial information by operating segment, including a reconciliation of Segment EBITDA to income from continuing operations before income taxes (in thousands):

|                            | Year Ended December 31, |                    |                  |
|----------------------------|-------------------------|--------------------|------------------|
|                            | 2015                    | 2014               | 2013             |
| <b>Revenue:</b>            |                         |                    |                  |
| U.S. Facilities            | \$1,426,205             | \$ 850,625         | \$710,695        |
| U.K. Facilities            | 360,698                 | 151,127            | —                |
| Corporate and Other        | 7,589                   | 2,849              | 2,713            |
|                            | <u>\$1,794,492</u>      | <u>\$1,004,601</u> | <u>\$713,408</u> |
| <b>Segment EBITDA (1):</b> |                         |                    |                  |
| U.S. Facilities            | \$ 377,587              | \$ 209,668         | \$172,625        |
| U.K. Facilities            | 90,035                  | 39,832             | —                |
| Corporate and Other        | (62,790)                | (34,012)           | (27,291)         |
|                            | <u>\$ 404,832</u>       | <u>\$ 215,488</u>  | <u>\$145,334</u> |

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|                                                       | Year Ended December 31, |           |           |
|-------------------------------------------------------|-------------------------|-----------|-----------|
|                                                       | 2015                    | 2014      | 2013      |
| Segment EBITDA (1)                                    | \$ 404,832              | \$215,488 | \$145,334 |
| Plus (less):                                          |                         |           |           |
| Equity-based compensation expense                     | (20,472)                | (10,058)  | (5,249)   |
| (Loss) gain on foreign currency derivatives           | (1,926)                 | 15,262    | —         |
| Debt extinguishment costs                             | (10,818)                | —         | (9,350)   |
| Transaction-related expenses                          | (36,571)                | (13,650)  | (7,150)   |
| Interest expense, net                                 | (106,742)               | (48,221)  | (37,250)  |
| Depreciation and amortization                         | (63,550)                | (32,667)  | (17,090)  |
| Income from continuing operations before income taxes | \$ 164,753              | \$126,154 | \$ 69,245 |

|                                   | U.S. Facilities | U.K. Facilities | Corporate and Other | Consolidated |
|-----------------------------------|-----------------|-----------------|---------------------|--------------|
| Goodwill:                         |                 |                 |                     |              |
| Balance at January 1, 2015        | \$ 693,945      | \$ 109,041      | \$ —                | \$ 802,986   |
| Increase from 2015 acquisitions   | 1,247,647       | 108,554         | —                   | 1,356,201    |
| Foreign currency translation loss | —               | (3,848)         | —                   | (3,848)      |
| Other                             | 281             | (27,405)        | —                   | (27,124)     |
| Balance at December 31, 2015      | \$ 1,941,873    | \$ 186,342      | \$ —                | \$2,128,215  |

|                     | December 31, |             |
|---------------------|--------------|-------------|
|                     | 2015         | 2014        |
| Assets (2):         |              |             |
| U.S. Facilities     | \$3,061,519  | \$1,327,563 |
| U.K. Facilities     | 1,045,922    | 726,693     |
| Corporate and Other | 171,767      | 152,699     |
|                     | \$4,279,208  | \$2,206,955 |

- (1) Segment EBITDA is defined as income from continuing operations before provision for income taxes, equity-based compensation expense, debt extinguishment costs, gain on foreign currency derivatives, transaction-related expenses, interest expense and depreciation and amortization. The Company uses Segment EBITDA as an analytical indicator to measure the performance of the Company's segments and to develop strategic objectives and operating plans for those segments. Segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from Segment EBITDA are significant components in understanding and assessing financial performance. Because Segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, Segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.
- (2) Assets include property and equipment for the U.S. Facilities of \$832.2 million, U.K. Facilities of \$824.4 million and corporate and other of \$52.4 million at December 31, 2015. Assets include property and equipment for the U.S. Facilities of \$478.1 million, U.K. Facilities of \$578.6 million and corporate and other of \$13.0 million at December 31, 2014.

**16. Employee Benefit Plans**

**Defined Contribution Plan**

The Company maintains a qualified defined contribution 401(k) plan covering substantially all of its employees in the United States. The Company may, at its discretion, make contributions to the plan. For the years ended December 31, 2015, 2014 and 2013, the Company contributed \$0.1 million, \$0.1 million and \$0.3 million, respectively, to the 401(k) plan.

**Partnerships in Care Pension Plan**

As part of the acquisition of Partnerships in Care on July 1, 2014, the Company assumed a frozen contributory defined benefit retirement plan ("Partnerships in Care Pension Plan") covering substantially all of the employees of Partnerships in Care and its subsidiaries prior to May 1, 2005 at which time, the Partnerships in Care Plan was frozen to new participants. Effective May 2015, the active participants no longer accrue benefits. The benefits under the Partnerships in Care Pension Plan were primarily based on years of service and final average earnings.

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The Company accounts for the Partnerships in Care Pension Plan in accordance with ASC 715-30 "Compensation — Defined Benefit Plans", ("ASC 715-30"). In accordance with ASC 715-30, the Company recognizes the unfunded liability of the Partnerships in Care Pension Plan on the Company's consolidated balance sheet and unrecognized gains (losses) and prior service credits (costs) as changes in other comprehensive income (loss). The measurement date of the Partnerships in Care Pension Plan's assets and liabilities coincides with the Company's year-end. The Company's pension benefit obligation is measured using actuarial calculations that incorporate discount rates, rate of compensation increases, when applicable, expected long-term returns on plan assets and consider expected age of retirement and mortality. Expected return on plan assets is determined by using the specific asset distribution at the measurement date.

The following table summarizes the funded status (unfunded liability) of the Partnerships in Care Pension Plan based upon actuarial valuations prepared as of December 31, 2015 and 2014 (in thousands):

|                                    | 2015            | 2014            |
|------------------------------------|-----------------|-----------------|
| Projected benefit obligation       | \$58,107        | \$66,910        |
| Fair value of plan assets          | 55,286          | 57,356          |
| Funded status (unfunded liability) | <u>\$ 2,821</u> | <u>\$ 9,554</u> |

The following table summarizes changes in the Partnerships in Care Pension Plan net pension liability as of December 31, 2015 and 2014 (in thousands):

|                                              | 2015            | 2014           |
|----------------------------------------------|-----------------|----------------|
| Net pension liability at beginning of period | \$ 9,554        | \$7,602        |
| Employer contributions                       | (1,217)         | (825)          |
| Net pension (benefit) expense                | (419)           | 729            |
| Pension liability adjustment                 | (4,661)         | 2,758          |
| Foreign currency translation loss            | (436)           | (710)          |
| Net pension liability at end of period       | <u>\$ 2,821</u> | <u>\$9,554</u> |

A pension liability of \$2.8 million and \$9.6 million were recorded within other liabilities on the consolidated balance sheet as of December 31, 2015 and 2014. The following assumptions were used to determine the plan benefit obligation:

|                            |                   |                   |
|----------------------------|-------------------|-------------------|
| Discount rate              | 3.8%              | 3.6%              |
| Compensation increase rate | —%                | 3.4%              |
| Measurement date           | December 31, 2015 | December 31, 2014 |

A summary of the components of net pension plan expense for the year ended December 31, 2015 and the six months ended December 31, 2014 is as follows (in thousands):

|                                               | 2015            | 2014          |
|-----------------------------------------------|-----------------|---------------|
| Interest cost on projected benefit obligation | \$ 2,369        | \$ 1,389      |
| Service cost on projected benefit obligation  | (616)           | 545           |
| Curtailments on projected benefit obligation  | (1,373)         | —             |
| Expected return on assets                     | (2,031)         | (1,205)       |
| Total pension plan (benefit) expense          | <u>\$ (419)</u> | <u>\$ 729</u> |



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Assumptions used to determine the net periodic pension plan expense for the year ended December 31, 2015 and the six months ended December 31, 2014 were as follows:

|                                                  | <u>2015</u> | <u>2014</u> |
|--------------------------------------------------|-------------|-------------|
| Discount rate                                    | 3.8%        | 3.6%        |
| Expected long-term rate of return on plan assets | 3.8%        | 4.3%        |

The Company recognizes changes in the funded status of the pension plan as a direct increase or decrease to stockholders' equity through accumulated other comprehensive income. The accumulated other comprehensive income (loss) related to the Partnerships in Care Pension Plan for the years ended December 31, 2015 and 2014 was \$2.6 million (\$1.7 million net of taxes) and \$(2.8) million (\$2.2 million net of taxes).

The trustees of the Partnerships in Care Pension Plan are required to invest assets in the best interest of the Partnerships in Care Pension Plan's members and also ensure liquid assets are available to make benefit payments as they become due. Performance of the Partnerships in Care Pension Plan's assets are monitored quarterly, at a minimum, and asset allocations are adjusted as needed. The Partnerships in Care Pension Plan's weighted-average asset allocations by asset category as of December 31, 2015 and 2014 were as follows:

|                                      | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|--------------------------------------|--------------------------|--------------------------|
| Cash and cash equivalents            | 1.7%                     | 1.3%                     |
| United Kingdom government obligation | 3.8%                     | 16.1%                    |
| Annuity contracts                    | 46.5%                    | —%                       |
| Equity securities                    | 35.7%                    | 43.6%                    |
| Debt securities                      | 8.5%                     | 34.1%                    |
| Other                                | 3.8%                     | 4.9%                     |

As of December 31, 2015 and 2014, the Partnerships in Care Pension Plan cash and cash equivalents were classified as Level 1 in the GAAP fair value hierarchy. Fair values were based on utilizing quoted prices (unadjusted) in active markets for identical assets. The United Kingdom government obligations, annuity contracts, equity securities, debt securities and other investments were classified as Level 2 in the GAAP fair value hierarchy. Fair values were based on data points that are observable, such as quoted prices, interest rates and yield curves.

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Table of Contents**17. Quarterly Information (Unaudited)**

The tables below present summarized unaudited quarterly results of operations for the years ended December 31, 2015 and 2014. Management believes that all necessary adjustments have been included in the amounts stated below for a fair presentation of the results of operations for the periods presented when read in conjunction with the Company's consolidated financial statements for the years ended December 31, 2015 and 2014. Results of operations for a particular quarter are not necessarily indicative of results of operations for an annual period and are not predictive of future periods.

|                                                                                         | Quarter Ended                           |              |               |              |
|-----------------------------------------------------------------------------------------|-----------------------------------------|--------------|---------------|--------------|
|                                                                                         | March 31,                               | June 30,     | September 30, | December 31, |
|                                                                                         | (In thousands except per share amounts) |              |               |              |
| <b>2015:</b>                                                                            |                                         |              |               |              |
| Revenue                                                                                 | \$365,783                               | \$453,660    | \$ 479,730    | \$ 495,319   |
| Income from continuing operations before income taxes                                   | \$ 21,205                               | \$ 49,355    | \$ 41,645(1)  | \$ 52,518    |
| Net income attributable to Acadia Healthcare Company, Inc. stockholders                 | \$ 14,594                               | \$ 33,844    | \$ 29,550(1)  | \$ 34,566    |
| Basic earnings per share attributable to Acadia Healthcare Company, Inc. stockholders   | \$ 0.23                                 | \$ 0.50      | \$ 0.42(1)    | \$ 0.49      |
| Diluted earnings per share attributable to Acadia Healthcare Company, Inc. stockholders | \$ 0.23                                 | \$ 0.49      | \$ 0.42(1)    | \$ 0.49      |
| <b>2014:</b>                                                                            |                                         |              |               |              |
| Revenue                                                                                 | \$201,418                               | \$213,803    | \$ 294,479    | \$ 294,901   |
| Income from continuing operations before income taxes                                   | \$ 20,796                               | \$ 37,362(2) | \$ 33,156(2)  | \$ 34,840    |
| Net income attributable to Acadia Healthcare Company, Inc. stockholders                 | \$ 13,058                               | \$ 22,451(2) | \$ 25,402(2)  | \$ 22,129    |
| Basic earnings per share attributable to Acadia Healthcare Company, Inc. stockholders   | \$ 0.26                                 | \$ 0.43(2)   | \$ 0.43(2)    | \$ 0.38      |
| Diluted earnings per share attributable to Acadia Healthcare Company, Inc. stockholders | \$ 0.26                                 | \$ 0.43(2)   | \$ 0.43(2)    | \$ 0.37      |

- (1) Includes debt extinguishment costs of \$10.0 million, or \$6.8 million net of taxes, in connection with the redemption of \$88.3 million of the 12.875% Senior Notes on September 21, 2015. On November 1, 2015, the Company redeemed all of the outstanding \$9.2 million principal amount of the 12.875% Senior Notes and incurred additional debt extinguishment cost of \$0.8 million.
- (2) Includes gain on foreign currency derivatives of \$13.7 million and \$1.5 million, in connection with the Partnerships in Care acquisition, for the three months ended June 30, 2014 and September 30, 2014, respectively.

**18. Subsequent Events**

On February 16, 2016, the Company completed its acquisition of Priory for a total purchase price of approximately \$2.2 billion, including total cash consideration of approximately \$1.9 billion and the issuance of 4,033,561 shares of its common stock. Priory is the leading independent provider of behavioral healthcare services in the United Kingdom. At December 31, 2015, Priory operated 327 facilities with approximately 7,100 beds. The cash sources included the net proceeds of \$685.0 million from a public equity offering of 11,500,000 shares completed on January 12, 2016, \$390.0 million from the Company's offering of 6.500% Senior Notes and borrowings of \$955.0 million under the New TLB Facility. In addition, the Company used borrowings from its TLA Facility, which was increased by \$135.0 million, to pay down the majority of its \$300.0 million revolving credit facility. See Note 4 – Acquisitions and Note 7 – Long-Term Debt for additional details.

**19. Financial Information for the Company and Its Subsidiaries**

The Company conducts substantially all of its business through its subsidiaries. The 12.875% Senior Notes, 6.125% Senior Notes, 5.125% Senior Notes and 5.625% Senior Notes are jointly and severally guaranteed on an unsecured senior basis by all of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. Presented below is condensed consolidating financial information for the Company and its subsidiaries as of December 31, 2015 and 2014, and for the years ended December 31, 2015, 2014 and 2013. The information segregates the parent company (Acadia Healthcare Company, Inc.), the combined wholly-owned subsidiary guarantors, the combined non-guarantor subsidiaries and eliminations.



**June 27, 2016**

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**Acadia Healthcare Company, Inc.  
Condensed Consolidating Balance Sheets  
December 31, 2015  
(In thousands)**

|                                       | Parent             | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|---------------------------------------|--------------------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| <b>Current assets:</b>                |                    |                                      |                                |                              |                                  |
| Cash and cash equivalents             | \$ —               | \$ 1,987                             | \$ 9,228                       | \$ —                         | \$ 11,215                        |
| Accounts receivable, net              | —                  | 187,546                              | 29,080                         | —                            | 216,626                          |
| Deferred tax assets                   | —                  | —                                    | —                              | —                            | —                                |
| Other current assets                  | —                  | 57,968                               | 8,927                          | —                            | 66,895                           |
| Total current assets                  | —                  | 247,501                              | 47,235                         | —                            | 294,736                          |
| Property and equipment, net           | —                  | 805,439                              | 903,614                        | —                            | 1,709,053                        |
| Goodwill                              | —                  | 1,835,339                            | 292,876                        | —                            | 2,128,215                        |
| Intangible assets, net                | —                  | 57,024                               | 2,551                          | —                            | 59,575                           |
| Deferred tax assets – noncurrent      | 3,946              | 40,587                               | 4,581                          | —                            | 49,114                           |
| Investment in subsidiaries            | 1,323,069          | —                                    | —                              | (1,323,069)                  | —                                |
| Other assets                          | 427,270            | 32,947                               | 2,322                          | (424,024)                    | 38,515                           |
| <b>Total assets</b>                   | <b>\$1,754,285</b> | <b>\$3,018,837</b>                   | <b>\$1,253,179</b>             | <b>\$ (1,747,093)</b>        | <b>\$4,279,208</b>               |
| <b>Current liabilities:</b>           |                    |                                      |                                |                              |                                  |
| Current portion of long-term debt     | \$ 45,125          | \$ —                                 | \$ 235                         | \$ —                         | \$ 45,360                        |
| Accounts payable                      | —                  | 75,015                               | 16,326                         | —                            | 91,341                           |
| Accrued salaries and benefits         | —                  | 66,249                               | 14,447                         | —                            | 80,696                           |
| Other accrued liabilities             | 26,132             | 10,886                               | 35,788                         | —                            | 72,806                           |
| Total current liabilities             | 71,257             | 152,150                              | 66,796                         | —                            | 290,203                          |
| Long-term debt                        | —                  | 2,171,998                            | 447,410                        | (424,024)                    | 2,195,384                        |
| Deferred tax liabilities – noncurrent | —                  | —                                    | 23,936                         | —                            | 23,936                           |
| Other liabilities                     | —                  | 75,159                               | 3,443                          | —                            | 78,602                           |
| <b>Total liabilities</b>              | <b>71,257</b>      | <b>2,399,307</b>                     | <b>541,585</b>                 | <b>—</b>                     | <b>2,588,125</b>                 |
| Redeemable noncontrolling interests   | —                  | —                                    | 8,055                          | —                            | 8,055                            |
| <b>Total equity</b>                   | <b>1,683,028</b>   | <b>619,530</b>                       | <b>703,539</b>                 | <b>(1,323,069)</b>           | <b>1,683,028</b>                 |
| <b>Total liabilities and equity</b>   | <b>\$1,754,285</b> | <b>\$3,018,837</b>                   | <b>\$1,253,179</b>             | <b>\$ (1,747,093)</b>        | <b>\$4,279,208</b>               |

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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidating Balance Sheets**  
**December 31, 2014**  
(In thousands)

|                                       | Parent             | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|---------------------------------------|--------------------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| <b>Current assets:</b>                |                    |                                      |                                |                              |                                  |
| Cash and cash equivalents             | \$ —               | \$ 76,685                            | \$ 17,355                      | \$ —                         | \$ 94,040                        |
| Accounts receivable, net              | —                  | 100,797                              | 17,581                         | —                            | 118,378                          |
| Deferred tax assets                   | —                  | 18,395                               | 1,760                          | —                            | 20,155                           |
| Other current assets                  | —                  | 36,049                               | 5,521                          | —                            | 41,570                           |
| Total current assets                  | —                  | 231,926                              | 42,217                         | —                            | 274,143                          |
| <b>Property and equipment, net</b>    | —                  | 451,943                              | 617,757                        | —                            | 1,069,700                        |
| <b>Goodwill</b>                       | —                  | 596,611                              | 206,375                        | —                            | 802,986                          |
| <b>Intangible assets, net</b>         | —                  | 19,057                               | 2,579                          | —                            | 21,636                           |
| Deferred tax assets – noncurrent      | 4,563              | —                                    | 14,244                         | (5,666)                      | 13,141                           |
| Investment in subsidiaries            | 1,759,337          | —                                    | —                              | (1,759,337)                  | —                                |
| Other assets                          | 186,073            | 18,727                               | 2,323                          | (181,774)                    | 25,349                           |
| <b>Total assets</b>                   | <b>\$1,949,973</b> | <b>\$1,318,264</b>                   | <b>\$ 885,495</b>              | <b>\$(1,946,777)</b>         | <b>\$2,206,955</b>               |
| <b>Current liabilities:</b>           |                    |                                      |                                |                              |                                  |
| Current portion of long-term debt     | \$ 26,750          | \$ —                                 | \$ 215                         | \$ —                         | \$ 26,965                        |
| Accounts payable                      | —                  | 39,486                               | 9,210                          | —                            | 48,696                           |
| Accrued salaries and benefits         | —                  | 47,597                               | 11,720                         | —                            | 59,317                           |
| Other accrued liabilities             | 13,647             | 7,688                                | 9,621                          | —                            | 30,956                           |
| Total current liabilities             | 40,397             | 94,771                               | 30,766                         | —                            | 165,934                          |
| Long-term debt                        | 1,028,611          | —                                    | 205,833                        | (181,774)                    | 1,052,670                        |
| Deferred tax liabilities – noncurrent | —                  | 21,027                               | 48,519                         | (5,666)                      | 63,880                           |
| Other liabilities                     | —                  | 33,321                               | 10,185                         | —                            | 43,506                           |
| <b>Total liabilities</b>              | <b>1,069,008</b>   | <b>149,119</b>                       | <b>295,303</b>                 | <b>(187,440)</b>             | <b>1,325,990</b>                 |
| <b>Total equity</b>                   | <b>880,965</b>     | <b>1,169,145</b>                     | <b>590,192</b>                 | <b>(1,759,337)</b>           | <b>880,965</b>                   |
| <b>Total liabilities and equity</b>   | <b>\$1,949,973</b> | <b>\$1,318,264</b>                   | <b>\$ 885,495</b>              | <b>\$(1,946,777)</b>         | <b>\$2,206,955</b>               |

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Acadia Healthcare Company, Inc.  
Condensed Consolidating Statement of Comprehensive Income  
Year Ended December 31, 2015  
(In thousands)

|                                                              | Parent     | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|--------------------------------------------------------------|------------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| Revenue before provision for doubtful accounts               | \$ —       | \$1,415,016                          | \$ 414,603                     | \$ —                         | \$1,829,619                      |
| Provision for doubtful accounts                              | —          | (32,614)                             | (2,513)                        | —                            | (35,127)                         |
| Revenue                                                      | —          | 1,382,402                            | 412,090                        | —                            | 1,794,492                        |
| Salaries, wages and benefits                                 | 20,472     | 726,215                              | 227,045                        | —                            | 973,732                          |
| Professional fees                                            | —          | 83,422                               | 33,041                         | —                            | 116,463                          |
| Supplies                                                     | —          | 65,077                               | 15,586                         | —                            | 80,663                           |
| Rents and leases                                             | —          | 29,094                               | 3,434                          | —                            | 32,528                           |
| Other operating expenses                                     | —          | 170,018                              | 36,728                         | —                            | 206,746                          |
| Depreciation and amortization                                | —          | 41,768                               | 21,782                         | —                            | 63,550                           |
| Interest expense, net                                        | 68,533     | 17,476                               | 20,733                         | —                            | 106,742                          |
| Debt extinguishment costs                                    | 10,818     | —                                    | —                              | —                            | 10,818                           |
| Loss on foreign currency derivatives                         | 1,926      | —                                    | —                              | —                            | 1,926                            |
| Transaction-related expenses                                 | —          | 24,914                               | 11,657                         | —                            | 36,571                           |
| Total expenses                                               | 101,749    | 1,157,984                            | 370,006                        | —                            | 1,629,739                        |
| (Loss) income from continuing operations before income taxes | (101,749)  | 224,418                              | 42,084                         | —                            | 164,753                          |
| Equity in earnings of subsidiaries                           | 176,178    | —                                    | —                              | (176,178)                    | —                                |
| (Benefit from) provision for income taxes                    | (37,047)   | 85,765                               | 4,670                          | —                            | 53,388                           |
| Income (loss) from continuing operations                     | 111,476    | 138,653                              | 37,414                         | (176,178)                    | 111,365                          |
| Income from discontinued operations, net of income taxes     | —          | 111                                  | —                              | —                            | 111                              |
| Net income (loss)                                            | 111,476    | 138,764                              | 37,414                         | (176,178)                    | 111,476                          |
| Net loss attributable to noncontrolling interests            | —          | —                                    | 1,078                          | —                            | 1,078                            |
| Net income attributable to Acadia Healthcare Company, Inc.   | \$ 111,476 | \$ 138,764                           | \$ 38,492                      | \$ (176,178)                 | \$ 112,554                       |
| Other comprehensive income:                                  |            |                                      |                                |                              |                                  |
| Foreign currency translation gain                            | —          | —                                    | (40,103)                       | —                            | (40,103)                         |
| Pension liability adjustment, net                            | —          | —                                    | 3,826                          | —                            | 3,826                            |
| Other comprehensive income                                   | —          | —                                    | (36,277)                       | —                            | (36,277)                         |
| Comprehensive income (loss)                                  | \$ 111,476 | \$ 138,764                           | \$ 2,215                       | \$ (176,178)                 | \$ 76,277                        |

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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidating Statement of Comprehensive Income**  
**Year Ended December 31, 2014**  
(In thousands)

|                                                              | Parent    | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|--------------------------------------------------------------|-----------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| Revenue before provision for doubtful accounts               | \$ —      | \$ 826,465                           | \$ 204,319                     | \$ —                         | \$ 1,030,784                     |
| Provision for doubtful accounts                              | —         | (23,866)                             | (2,317)                        | —                            | (26,183)                         |
| Revenue                                                      | —         | 802,599                              | 202,002                        | —                            | 1,004,601                        |
| Salaries, wages and benefits                                 | 10,058    | 459,297                              | 106,057                        | —                            | 575,412                          |
| Professional fees                                            | —         | 38,632                               | 13,850                         | —                            | 52,482                           |
| Supplies                                                     | —         | 40,511                               | 7,911                          | —                            | 48,422                           |
| Rents and leases                                             | —         | 10,136                               | 2,065                          | —                            | 12,201                           |
| Other operating expenses                                     | —         | 83,835                               | 26,819                         | —                            | 110,654                          |
| Depreciation and amortization                                | —         | 22,990                               | 9,677                          | —                            | 32,667                           |
| Interest expense, net                                        | 27,199    | 6,207                                | 14,815                         | —                            | 48,221                           |
| Gain on foreign currency derivatives                         | (15,262)  | —                                    | —                              | —                            | (15,262)                         |
| Transaction-related expenses                                 | —         | 12,367                               | 1,283                          | —                            | 13,650                           |
| Total expenses                                               | 21,995    | 673,975                              | 182,477                        | —                            | 878,447                          |
| (Loss) income from continuing operations before income taxes | (21,995)  | 128,624                              | 19,525                         | —                            | 126,154                          |
| Equity in earnings of subsidiaries                           | 97,414    | —                                    | —                              | (97,414)                     | —                                |
| (Benefit from) provision for income taxes                    | (7,621)   | 44,608                               | 5,935                          | —                            | 42,922                           |
| Income (loss) from continuing operations                     | 83,040    | 84,016                               | 13,590                         | (97,414)                     | 83,232                           |
| Loss from discontinued operations, net of income taxes       | —         | (192)                                | —                              | —                            | (192)                            |
| Net income (loss)                                            | \$ 83,040 | \$ 83,824                            | \$ 13,590                      | \$ (97,414)                  | \$ 83,040                        |
| Other comprehensive loss:                                    |           |                                      |                                |                              |                                  |
| Foreign currency translation loss                            | —         | —                                    | (66,206)                       | —                            | (66,206)                         |
| Pension liability adjustment, net                            | —         | —                                    | (2,164)                        | —                            | (2,164)                          |
| Other comprehensive loss                                     | —         | —                                    | (68,370)                       | —                            | (68,370)                         |
| Comprehensive income (loss)                                  | \$ 83,040 | \$ 83,824                            | \$ (54,780)                    | \$ (97,414)                  | \$ 14,670                        |

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Acadia Healthcare Company, Inc.  
Condensed Consolidating Statement of Comprehensive Income  
Year Ended December 31, 2013  
(In thousands)

|                                                              | Parent    | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|--------------------------------------------------------------|-----------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| Revenue before provision for doubtful accounts               | \$ —      | \$ 700,407                           | \$ 34,702                      | \$ —                         | \$ 735,109                       |
| Provision for doubtful accounts                              | —         | (20,700)                             | (1,001)                        | —                            | (21,701)                         |
| Revenue                                                      | —         | 679,707                              | 33,701                         | —                            | 713,408                          |
| Salaries, wages and benefits                                 | 5,249     | 388,749                              | 13,964                         | —                            | 407,962                          |
| Professional fees                                            | —         | 34,149                               | 3,022                          | —                            | 37,171                           |
| Supplies                                                     | —         | 35,686                               | 1,883                          | —                            | 37,569                           |
| Rents and leases                                             | —         | 9,282                                | 767                            | —                            | 10,049                           |
| Other operating expenses                                     | —         | 72,626                               | 7,946                          | —                            | 80,572                           |
| Depreciation and amortization                                | —         | 15,882                               | 1,208                          | —                            | 17,090                           |
| Interest expense, net                                        | 35,327    | 22                                   | 1,901                          | —                            | 37,250                           |
| Debt extinguishment costs                                    | 9,350     | —                                    | —                              | —                            | 9,350                            |
| Transaction-related expenses                                 | —         | 6,716                                | 434                            | —                            | 7,150                            |
| Total expenses                                               | 49,926    | 563,112                              | 31,125                         | —                            | 644,163                          |
| (Loss) income from continuing operations before income taxes | (49,926)  | 116,595                              | 2,576                          | —                            | 69,245                           |
| Equity in earnings of subsidiaries                           | 73,538    | —                                    | —                              | (73,538)                     | —                                |
| (Benefit from) provision for income taxes                    | (18,967)  | 44,294                               | 648                            | —                            | 25,975                           |
| Income (loss) from continuing operations                     | 42,579    | 72,301                               | 1,928                          | (73,538)                     | 43,270                           |
| Loss from discontinued operations, net of income taxes       | —         | (691)                                | —                              | —                            | (691)                            |
| Net income (loss)                                            | \$ 42,579 | \$ 71,610                            | \$ 1,928                       | \$ (73,538)                  | \$ 42,579                        |
| Comprehensive income (loss)                                  | \$ 42,579 | \$ 71,610                            | \$ 1,928                       | \$ (73,538)                  | \$ 42,579                        |

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Acadia Healthcare Company, Inc.  
Condensed Consolidating Statement of Cash Flows  
Year Ended December 31, 2015  
(In thousands)

|                                                                                                                      | Parent     | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|----------------------------------------------------------------------------------------------------------------------|------------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| <b>Operating activities:</b>                                                                                         |            |                                      |                                |                              |                                  |
| Net income (loss)                                                                                                    | \$ 111,476 | \$ 138,764                           | \$ 37,414                      | \$ (176,178)                 | \$ 111,476                       |
| <b>Adjustments to reconcile net income (loss) to net cash (used in) provided by continuing operating activities:</b> |            |                                      |                                |                              |                                  |
| Equity in earnings of subsidiaries                                                                                   | (176,178)  | —                                    | —                              | 176,178                      | —                                |
| Depreciation and amortization                                                                                        | —          | 41,768                               | 21,782                         | —                            | 63,550                           |
| Amortization of debt issuance costs                                                                                  | 7,147      | —                                    | (438)                          | —                            | 6,709                            |
| Equity-based compensation expense                                                                                    | 20,472     | —                                    | —                              | —                            | 20,472                           |
| Deferred income tax (benefit) expense                                                                                | 617        | 42,246                               | 750                            | —                            | 43,613                           |
| Loss from discontinued operations, net of taxes                                                                      | —          | (111)                                | —                              | —                            | (111)                            |
| Debt extinguishment costs                                                                                            | 10,818     | —                                    | —                              | —                            | 10,818                           |
| Loss (gain) on foreign currency derivatives                                                                          | 1,926      | —                                    | —                              | —                            | 1,926                            |
| Other                                                                                                                | —          | 1,582                                | 33                             | —                            | 1,615                            |
| <b>Change in operating assets and liabilities, net of effect of acquisitions:</b>                                    |            |                                      |                                |                              |                                  |
| Accounts receivable, net                                                                                             | —          | (18,632)                             | (6,322)                        | —                            | (24,954)                         |
| Other current assets                                                                                                 | —          | (1,152)                              | (1,565)                        | —                            | (2,717)                          |
| Other assets                                                                                                         | (1,100)    | (8,567)                              | 546                            | 1,100                        | (8,021)                          |
| Accounts payable and other accrued liabilities                                                                       | —          | (7,583)                              | 14,451                         | —                            | 6,868                            |
| Accrued salaries and benefits                                                                                        | —          | 312                                  | 1,346                          | —                            | 1,658                            |
| Other liabilities                                                                                                    | —          | 9,350                                | (114)                          | —                            | 9,236                            |
| Net cash (used in) provided by continuing operating activities                                                       | (24,822)   | 197,977                              | 67,883                         | 1,100                        | 242,138                          |
| Net cash provided by discontinued operating activities                                                               | —          | (1,735)                              | —                              | —                            | (1,735)                          |
| Net cash (used in) provided by operating activities                                                                  | (24,822)   | 196,242                              | 67,883                         | 1,100                        | 240,403                          |
| <b>Investing activities:</b>                                                                                         |            |                                      |                                |                              |                                  |
| Cash paid for acquisitions, net of cash acquired                                                                     | —          | (254,848)                            | (319,929)                      | —                            | (574,777)                        |
| Cash paid for capital expenditures                                                                                   | —          | (172,329)                            | (103,718)                      | —                            | (276,047)                        |
| Cash paid for real estate acquisitions                                                                               | —          | (25,293)                             | (1,329)                        | —                            | (26,622)                         |
| Settlement of foreign currency derivatives                                                                           | —          | (1,926)                              | —                              | —                            | (1,926)                          |
| Other                                                                                                                | —          | (5,099)                              | —                              | —                            | (5,099)                          |
| Net cash used in investing activities                                                                                | —          | (459,495)                            | (424,976)                      | —                            | (884,471)                        |
| <b>Financing activities:</b>                                                                                         |            |                                      |                                |                              |                                  |
| Borrowings on long-term debt                                                                                         | 1,150,000  | —                                    | —                              | —                            | 1,150,000                        |
| Borrowings on revolving credit facility                                                                              | 468,000    | —                                    | —                              | —                            | 468,000                          |
| Principal payments on revolving credit facility                                                                      | (310,000)  | —                                    | —                              | —                            | (310,000)                        |
| Principal payments on long-term debt                                                                                 | (31,965)   | —                                    | (1,315)                        | 1,315                        | (31,965)                         |
| Repayment of assumed CRC debt                                                                                        | (904,467)  | —                                    | —                              | —                            | (904,467)                        |
| Repayments of senior notes                                                                                           | (97,500)   | —                                    | —                              | —                            | (97,500)                         |
| Payment of debt issuance costs                                                                                       | (26,421)   | —                                    | —                              | —                            | (26,421)                         |
| Payment of premium on senior notes                                                                                   | (7,480)    | —                                    | —                              | —                            | (7,480)                          |
| Issuance of Common Stock                                                                                             | —          | 331,308                              | —                              | —                            | 331,308                          |
| Common stock withheld for minimum statutory taxes, net                                                               | (7,762)    | —                                    | —                              | —                            | (7,762)                          |
| Excess tax benefit from equity awards                                                                                | 309        | —                                    | —                              | —                            | 309                              |
| Other                                                                                                                | —          | (420)                                | —                              | —                            | (420)                            |
| Cash provided by (used in) intercompany activity                                                                     | (207,892)  | (139,974)                            | 350,281                        | (2,415)                      | —                                |
| Net cash provided by (used in) financing activities                                                                  | 24,822     | 190,914                              | 348,966                        | (1,100)                      | 563,602                          |
| Effect of exchange rate changes on cash                                                                              | —          | (2,359)                              | —                              | —                            | (2,359)                          |
| Net (decrease) increase in cash and cash equivalents                                                                 | —          | (74,698)                             | (8,217)                        | —                            | (82,825)                         |
| Cash and cash equivalents at beginning of the period                                                                 | —          | 76,685                               | 17,355                         | —                            | 94,040                           |
| Cash and cash equivalents at end of the period                                                                       | \$ —       | \$ 1,987                             | \$ 9,228                       | \$ —                         | \$ 11,215                        |



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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidating Statement of Cash Flows**  
**Year Ended December 31, 2014**  
**(In thousands)**

|                                                                                                                      | Parent    | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|----------------------------------------------------------------------------------------------------------------------|-----------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| <b>Operating activities:</b>                                                                                         |           |                                      |                                |                              |                                  |
| Net income (loss)                                                                                                    | \$ 83,040 | \$ 83,824                            | \$ 13,590                      | \$ (97,414)                  | \$ 83,040                        |
| <b>Adjustments to reconcile net income (loss) to net cash (used in) provided by continuing operating activities:</b> |           |                                      |                                |                              |                                  |
| Equity in earnings of subsidiaries                                                                                   | (97,414)  | —                                    | —                              | 97,414                       | —                                |
| Depreciation and amortization                                                                                        | —         | 22,990                               | 9,677                          | —                            | 32,667                           |
| Amortization of debt issuance costs                                                                                  | 2,748     | —                                    | 450                            | —                            | 3,198                            |
| Equity-based compensation expense                                                                                    | 10,058    | —                                    | —                              | —                            | 10,058                           |
| Deferred income tax (benefit) expense                                                                                | (1,969)   | 5,231                                | 3,953                          | —                            | 7,215                            |
| Loss from discontinued operations, net of taxes                                                                      | —         | 192                                  | —                              | —                            | 192                              |
| Gain on foreign currency derivatives                                                                                 | (15,262)  | —                                    | —                              | —                            | (15,262)                         |
| Other                                                                                                                | —         | 449                                  | 39                             | —                            | 488                              |
| Change in operating assets and liabilities, net of effect of acquisitions:                                           |           |                                      |                                |                              |                                  |
| Accounts receivable, net                                                                                             | —         | (13,636)                             | (1,474)                        | —                            | (15,110)                         |
| Other current assets                                                                                                 | —         | (2,205)                              | 194                            | —                            | (2,011)                          |
| Other assets                                                                                                         | (1,151)   | (6,910)                              | 397                            | 1,151                        | (6,513)                          |
| Accounts payable and other accrued liabilities                                                                       | —         | (5,559)                              | 8,352                          | —                            | 2,793                            |
| Accrued salaries and benefits                                                                                        | —         | 11,035                               | 945                            | —                            | 11,980                           |
| Other liabilities                                                                                                    | —         | 1,769                                | 980                            | —                            | 2,749                            |
| Net cash (used in) provided by continuing operating activities                                                       | (19,950)  | 97,180                               | 37,103                         | 1,151                        | 115,484                          |
| Net cash used in discontinued operating activities                                                                   | —         | (198)                                | —                              | —                            | (198)                            |
| Net cash (used in) provided by operating activities                                                                  | (19,950)  | 96,982                               | 37,103                         | 1,151                        | 115,286                          |
| <b>Investing activities:</b>                                                                                         |           |                                      |                                |                              |                                  |
| Cash paid for acquisitions, net of cash acquired                                                                     | —         | (723,064)                            | (15,638)                       | —                            | (738,702)                        |
| Cash paid for capital expenditures                                                                                   | —         | (83,864)                             | (29,380)                       | —                            | (113,244)                        |
| Cash paid for real estate acquisitions                                                                               | —         | (23,177)                             | —                              | —                            | (23,177)                         |
| Settlement of foreign currency derivatives                                                                           | 15,262    | —                                    | —                              | —                            | 15,262                           |
| Other                                                                                                                | —         | (913)                                | —                              | —                            | (913)                            |
| Net cash used in investing activities                                                                                | 15,262    | (831,018)                            | (45,018)                       | —                            | (860,774)                        |
| <b>Financing activities:</b>                                                                                         |           |                                      |                                |                              |                                  |
| Borrowings on long-term debt                                                                                         | 542,500   | —                                    | —                              | —                            | 542,500                          |
| Borrowings on revolving credit facility                                                                              | 230,500   | —                                    | —                              | —                            | 230,500                          |
| Principal payments on revolving credit facility                                                                      | (284,000) | —                                    | —                              | —                            | (284,000)                        |
| Principal payments on long-term debt                                                                                 | (7,500)   | —                                    | (1,346)                        | 1,151                        | (7,695)                          |
| Payment of debt issuance costs                                                                                       | (12,993)  | —                                    | —                              | —                            | (12,993)                         |
| Issuance of common stock, net                                                                                        | 374,431   | —                                    | —                              | —                            | 374,431                          |
| Common stock withheld for minimum statutory taxes, net                                                               | (4,099)   | —                                    | —                              | —                            | (4,099)                          |
| Excess tax benefit from equity awards                                                                                | 4,617     | —                                    | —                              | —                            | 4,617                            |
| Cash paid for contingent consideration                                                                               | —         | (5,000)                              | —                              | —                            | (5,000)                          |
| Other                                                                                                                | —         | (289)                                | —                              | —                            | (289)                            |
| Cash (used in) provided by intercompany activity                                                                     | (838,768) | 816,010                              | 23,135                         | (377)                        | —                                |
| Net cash provided by financing activities                                                                            | 4,688     | 810,721                              | 21,789                         | 774                          | 837,972                          |
| Effect of exchange rate changes on cash                                                                              | —         | —                                    | (3,013)                        | —                            | (3,013)                          |
| Net increase in cash and cash equivalents                                                                            | —         | 76,685                               | 10,861                         | 1,925                        | 89,471                           |
| Cash and cash equivalents at beginning of the period                                                                 | —         | —                                    | 6,494                          | (1,925)                      | 4,569                            |
| Cash and cash equivalents at end of the period                                                                       | \$ —      | \$ 76,685                            | \$ 17,355                      | \$ —                         | \$ 94,040                        |

June 27, 2016

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Acadia Healthcare Company, Inc.  
Condensed Consolidating Statement of Cash Flows  
Year Ended December 31, 2013  
(In thousands)

|                                                                                                                      | Parent    | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|----------------------------------------------------------------------------------------------------------------------|-----------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| <b>Operating activities:</b>                                                                                         |           |                                      |                                |                              |                                  |
| Net income (loss)                                                                                                    | \$ 42,579 | \$ 71,610                            | \$ 1,928                       | \$ (73,538)                  | \$ 42,579                        |
| <b>Adjustments to reconcile net income (loss) to net cash (used in) provided by continuing operating activities:</b> |           |                                      |                                |                              |                                  |
| Equity in earnings of subsidiaries                                                                                   | (73,538)  | —                                    | —                              | 73,538                       | —                                |
| Depreciation and amortization                                                                                        | —         | 15,882                               | 1,208                          | —                            | 17,090                           |
| Amortization of debt issuance costs                                                                                  | 2,725     | —                                    | (461)                          | —                            | 2,264                            |
| Equity-based compensation expense                                                                                    | 5,249     | —                                    | —                              | —                            | 5,249                            |
| Deferred income tax expense                                                                                          | (754)     | 10,278                               | 559                            | —                            | 10,083                           |
| Loss from discontinued operations, net of taxes                                                                      | —         | 691                                  | —                              | —                            | 691                              |
| Debt extinguishment costs                                                                                            | 9,350     | —                                    | —                              | —                            | 9,350                            |
| Other                                                                                                                | —         | 21                                   | —                              | —                            | 21                               |
| Change in operating assets and liabilities, net of effect of acquisitions:                                           |           |                                      |                                |                              |                                  |
| Accounts receivable, net                                                                                             | —         | (22,768)                             | 1,526                          | —                            | (21,242)                         |
| Other current assets                                                                                                 | —         | (3,774)                              | 122                            | —                            | (3,652)                          |
| Other assets                                                                                                         | —         | (1,950)                              | (289)                          | —                            | (2,239)                          |
| Accounts payable and other accrued liabilities                                                                       | —         | (287)                                | (561)                          | —                            | (848)                            |
| Accrued salaries and benefits                                                                                        | —         | 2,161                                | 642                            | —                            | 2,803                            |
| Other liabilities                                                                                                    | —         | 3,181                                | —                              | —                            | 3,181                            |
| Net cash (used in) provided by continuing operating activities                                                       | (14,389)  | 75,045                               | 4,674                          | —                            | 65,330                           |
| Net cash used in discontinued operating activities                                                                   | —         | 232                                  | —                              | —                            | 232                              |
| Net cash (used in) provided by operating activities                                                                  | (14,389)  | 75,277                               | 4,674                          | —                            | 65,562                           |
| <b>Investing activities:</b>                                                                                         |           |                                      |                                |                              |                                  |
| Cash paid for acquisitions, net of cash acquired                                                                     | —         | (164,019)                            | —                              | —                            | (164,019)                        |
| Cash paid for capital expenditures                                                                                   | —         | (68,497)                             | (444)                          | —                            | (68,941)                         |
| Cash paid for real estate acquisitions                                                                               | —         | (8,092)                              | —                              | —                            | (8,092)                          |
| Other                                                                                                                | —         | (1,926)                              | —                              | —                            | (1,926)                          |
| Net cash used in investing activities                                                                                | —         | (242,534)                            | (444)                          | —                            | (242,978)                        |
| <b>Financing activities:</b>                                                                                         |           |                                      |                                |                              |                                  |
| Borrowings on long-term debt                                                                                         | 150,000   | —                                    | —                              | —                            | 150,000                          |
| Borrowings on revolving credit facility                                                                              | 61,500    | —                                    | —                              | —                            | 61,500                           |
| Principal payments on revolving credit facility                                                                      | (8,000)   | —                                    | —                              | —                            | (8,000)                          |
| Principal payments on long-term debt                                                                                 | (7,500)   | —                                    | (180)                          | —                            | (7,680)                          |
| Repayment of long-term debt                                                                                          | (52,500)  | —                                    | —                              | —                            | (52,500)                         |
| Payment of debt issuance costs                                                                                       | (4,307)   | —                                    | —                              | —                            | (4,307)                          |
| Payment of premium on note redemption                                                                                | (6,759)   | —                                    | —                              | —                            | (6,759)                          |
| Issuance of common stock, net                                                                                        | (205)     | —                                    | —                              | —                            | (205)                            |
| Common stock withheld for minimum statutory taxes, net                                                               | (1,242)   | —                                    | —                              | —                            | (1,242)                          |
| Excess tax benefit from equity awards                                                                                | 1,779     | —                                    | —                              | —                            | 1,779                            |
| Cash (used in) provided by intercompany activity                                                                     | (118,377) | 117,950                              | 2,352                          | (1,925)                      | —                                |
| Net cash (used in) provided by financing activities                                                                  | 14,389    | 117,950                              | 2,172                          | (1,925)                      | 132,586                          |
| Net (decrease) increase in cash and cash equivalents                                                                 | —         | (49,307)                             | 6,402                          | (1,925)                      | (44,830)                         |
| Cash and cash equivalents at beginning of the period                                                                 | —         | 49,307                               | 92                             | —                            | 49,399                           |
| Cash and cash equivalents at end of the period                                                                       | \$ —      | \$ —                                 | \$ 6,494                       | \$ (1,925)                   | \$ 4,569                         |



**June 27, 2016****9:26 am**Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Acadia Healthcare Company, Inc.

By: /s/ JOEY A. JACOBS

Joey A. Jacobs

*Chairman of the Board and Chief Executive Officer*

Dated: February 25, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u>                                          | <u>Title</u>                                                                              | <u>Date</u>       |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------|
| <u>/s/ JOEY A. JACOBS</u><br>Joey A. Jacobs               | Chairman of the Board and Chief Executive Officer<br>(Principal Executive Officer)        | February 25, 2016 |
| <u>/s/ DAVID M. DUCKWORTH</u><br>David M. Duckworth       | Chief Financial Officer (Principal Financial Officer and<br>Principal Accounting Officer) | February 25, 2016 |
| <u>/s/ BRUCE A. SHEAR</u><br>Bruce A. Shear               | Executive Vice Chairman, Director                                                         | February 25, 2016 |
| <u>/s/ E. PEROT BISSELL</u><br>E. Perot Bissell           | Director                                                                                  | February 25, 2016 |
| <u>/s/ CHRISTOPHER R. GORDON</u><br>Christopher R. Gordon | Director                                                                                  | February 25, 2016 |
| <u>/s/ WILLIAM F. GRIECO</u><br>William F. Grieco         | Director                                                                                  | February 25, 2016 |
| <u>/s/ KYLE D. LATTNER</u><br>Kyle D. Lattner             | Director                                                                                  | February 25, 2016 |
| <u>/s/ WADE D. MIQUELON</u><br>Wade D. Miquelon           | Director                                                                                  | February 25, 2016 |
| <u>/s/ WILLIAM M. PETRIE</u><br>William M. Petrie         | Director                                                                                  | February 25, 2016 |
| <u>/s/ HARTLEY R. ROGERS</u><br>Hartley R. Rogers         | Director                                                                                  | February 25, 2016 |
| <u>/s/ REEVE B. WAUD</u><br>Reeve B. Waud                 | Director                                                                                  | February 25, 2016 |

**June 27, 2016****9:26 am**Table of Contents**EXHIBIT INDEX**

| <b>Exhibit<br/>No.</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1                    | Agreement and Plan of Merger, dated May 23, 2011, by and among Acadia Healthcare Company, Inc. (the "Company"), Acadia Merger Sub, LLC and PHC, Inc. (a)                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 2.2                    | Agreement and Plan of Merger, dated February 17, 2011, by and among the Company (f/k/a Acadia Healthcare Company, LLC), Acadia—YFCS Acquisition Company, Inc., Acadia—YFCS Holdings, Inc., Youth & Family Centered Services, Inc., each of the stockholders who are signatories thereto, and TA Associates, Inc., solely in the capacity as Stockholders' Representative. (b)                                                                                                                                                                                                |
| 2.3                    | Asset Purchase Agreement, dated as of March 15, 2011, between Universal Health Services, Inc. and PHC, Inc. for the acquisition of MeadowWood Behavioral Health System. (c)                                                                                                                                                                                                                                                                                                                                                                                                  |
| 2.4                    | Membership Interest Purchase Agreement, dated December 30, 2011, by and among Hermitage Behavioral, LLC, Haven Behavioral Healthcare Holdings, LLC and Haven Behavioral Healthcare, Inc. (d)                                                                                                                                                                                                                                                                                                                                                                                 |
| 2.5                    | Asset Purchase Agreement, dated August 28, 2012, by and between Timberline Knolls, LLC, and TK Behavioral, LLC. (e)                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 2.6                    | Acquisition Agreement, dated November 21, 2012, by and among (i) Behavioral Centers of America, LLC, (ii) Behavioral Centers of America Holdings, LLC, (iii) Linden BCA Blocker Corp., (iv) SBOF-BCA Holdings Corporation, (v) HEP BCA Holdings Corp. (vi) Siguler Guff Small Buyout Opportunities Fund, LP, and Siguler Guff Small Buyout Opportunities Fund (F), LP, (vii) Health Enterprise Partners, L.P., HEP BCA Co-Investors, LLC, (viii) Linden Capital Partners A, LP, (ix) Commodore Acquisition Sub, LLC, and (x) the Company (the "BCA Purchase Agreement"). (f) |
| 2.7                    | Amendment No. 1, dated as of December 31, 2012, to the BCA Purchase Agreement. (g)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 2.8                    | Membership Interest Purchase Agreement, dated November 23, 2012 by and among 2C4K, L.P., ARTC Acquisitions, Inc., Acadia Vista, LLC and the Company. (f)                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 2.9                    | Amendment, dated as of December 31, 2012, to Membership Interest Purchase Agreement by and among 2C4K, LP, ARTC Acquisitions, Inc., Acadia Vista, LLC and the Company. (g)                                                                                                                                                                                                                                                                                                                                                                                                   |
| 2.10                   | Stock Purchase Agreement, dated as of March 29, 2013, by and among First Ten Broeck Tampa, Inc., UMC Ten Broeck, Inc., Capestrano Holding 12, Inc., Donald R. Dizney, David A. Dizney and Acadia Merger Sub, LLC. (h)                                                                                                                                                                                                                                                                                                                                                        |
| 2.11                   | Agreement, dated June 3, 2014, by and among Partnerships in Care Holdings Limited, The Royal Bank of Scotland plc, Piper Holdco 2, Ltd. and the Company. (i)                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 2.12                   | Agreement and Plan of Merger, dated as of October 29, 2014, by and among the Company, Copper Acquisition Co., Inc. and CRC Health Group, Inc. (j)                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 2.13                   | Sale and Purchase Deed, dated as of December 31, 2015, by and among Whitewell UK Investments I Limited, the institutional sellers named therein, Appleby Trust (Jersey) Limited, the management sellers named therein, and the Company. (ii)                                                                                                                                                                                                                                                                                                                                 |
| 2.14                   | Amendment to Sale the Purchase Deed by and among Whitewell UK Investments I Limited, the representative of the institutional sellers named therein, the representative of the management sellers named therein, and the Company. (jj)                                                                                                                                                                                                                                                                                                                                        |
| 3.1                    | Amended and Restated Certificate of Incorporation, as filed on October 28, 2011 with the Secretary of State of the State of Delaware. (k)                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 3.2                    | Amended and Restated Bylaws of the Company. (k)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

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| <b><u>Exhibit No.</u></b> | <b><u>Exhibit Description</u></b>                                                                                                                                                                                                            |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1                       | Indenture, dated as of March 12, 2013, among the Company, the guarantors named therein and U.S. Bank National Association, as Trustee. (m)                                                                                                   |
| 4.2                       | Form of 6.125% Senior Note due 2021. (Included in Exhibit 4.1)                                                                                                                                                                               |
| 4.3                       | Registration Rights Agreement, dated March 12, 2013, among the Company, the guarantors named therein and Merrill Lynch, Pierce, Fenner & Smith Incorporated. (m)                                                                             |
| 4.4                       | Indenture, dated July 1, 2014, by and among the Company, the guarantors party thereto and U.S. Bank National Association, as Trustee. (n)                                                                                                    |
| 4.5                       | Supplemental Indenture, dated as of August 4, 2014, to the Indenture, dated as of July 1, 2014, among the Company, the guarantors named therein and U.S. Bank National Association, as Trustee. (o)                                          |
| 4.6                       | Form of 5.125% Senior Note due 2022 (Included in Exhibit 4.4).                                                                                                                                                                               |
| 4.7                       | Registration Rights Agreement, dated July 1, 2014, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (n)        |
| 4.8                       | Indenture, dated February 11, 2015, by and among the Company, the guarantors party thereto and U.S. Bank National Association, as Trustee. (p)                                                                                               |
| 4.9                       | Form of 5.625% Senior Note due 2023 (Included in Exhibit 4.8).                                                                                                                                                                               |
| 4.10                      | Registration Rights Agreement, dated February 11, 2015, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (p)   |
| 4.11                      | Registration Rights Agreement, dated September 21, 2015, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (hh) |
| 4.12                      | Indenture, dated February 16, 2016, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (mm)                      |
| 4.13                      | Form of 6.500% Senior Note due 2024 (Included in Exhibit 4.12).                                                                                                                                                                              |
| 4.14                      | Registration Rights Agreement, dated February 16, 2016, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (mm)  |
| 4.15                      | Amended and Restated Stockholders Agreement, dated as of October 29, 2014, by and among the Company and each of the stockholders named therein. (j)                                                                                          |
| 4.16                      | Specimen Acadia Healthcare Company, Inc. Common Stock Certificate to be issued to holders of Acadia Healthcare Company, Inc. Common Stock. (r)                                                                                               |
| 4.17                      | Second Amended and Restated Registration Rights Agreement, dated as of October 29, 2014, by and among the Company and each of the parties named therein. (j)                                                                                 |
| 4.18                      | Amendment, dated February 11, 2015, to the Second Amended and Restated Registration Rights Agreement dated as of October 29, 2014, by and among the Company and each of the parties named therein. (p)                                       |
| 4.19                      | Third Amended and Restated Registration Rights Agreement, dated as of December 31, 2015, by and among the Company and each of the parties named therein. (ii)                                                                                |

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| <b><u>Exhibit No.</u></b> | <b><u>Exhibit Description</u></b>                                                                                                                                                                                                                                                                                                                           |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.20                      | Form of Subscription Agreement and Warrant. (s)                                                                                                                                                                                                                                                                                                             |
| 10.1                      | Amended and Restated Credit Agreement, dated December 31, 2012, by and among Bank of America, NA (Administrative Agent, Swing Line Lender and L/C Issuer) and the Company (f/k/a Acadia Healthcare Company, LLC), the guarantors listed on the signature pages thereto, and the lenders listed on the signature pages thereto (the "Credit Agreement"). (g) |
| 10.2                      | First Amendment, dated March 11, 2013, to the Credit Agreement. (m)                                                                                                                                                                                                                                                                                         |
| 10.3                      | Second Amendment, dated June 28, 2013, to the Credit Agreement. (t)                                                                                                                                                                                                                                                                                         |
| 10.4                      | Third Amendment, dated September 30, 2013, to the Credit Agreement. (u)                                                                                                                                                                                                                                                                                     |
| 10.5                      | Fourth Amendment, dated February 13, 2014, to the Credit Agreement. (v)                                                                                                                                                                                                                                                                                     |
| 10.6                      | Fifth Amendment, dated June 16, 2014, to the Credit Agreement. (w)                                                                                                                                                                                                                                                                                          |
| 10.7                      | Sixth Amendment, dated December 15, 2014, to the Credit Agreement. (x)                                                                                                                                                                                                                                                                                      |
| 10.8                      | Seventh Amendment, dated February 6, 2015, to the Credit Agreement. (p)                                                                                                                                                                                                                                                                                     |
| 10.9                      | First Incremental Facility Amendment, dated February 11, 2015, to the Credit Agreement. (p)                                                                                                                                                                                                                                                                 |
| 10.10                     | Eighth Amendment, dated April 22, 2015, to the Credit Agreement. (ff)                                                                                                                                                                                                                                                                                       |
| 10.11                     | Ninth Amendment, dated January 25, 2016, to the Credit Agreement. (kk)                                                                                                                                                                                                                                                                                      |
| 10.12                     | Second Incremental Facility Amendment, dated February 16, 2016, to the Credit Agreement. (mm)                                                                                                                                                                                                                                                               |
| †10.13                    | Amended and Restated Employment Agreement, dated April 7, 2014, among the Company, Acadia Management Company, Inc. and Joey A. Jacobs. (y)                                                                                                                                                                                                                  |
| †10.14                    | Amended and Restated Employment Agreement, dated April 7, 2014, among the Company, Acadia Management Company, Inc. and Brent Turner. (y)                                                                                                                                                                                                                    |
| †10.15                    | Amended and Restated Employment Agreement, dated April 7, 2014, among the Company, Acadia Management Company, Inc. and Ronald M. Fincher. (y)                                                                                                                                                                                                               |
| †10.16                    | Amended and Restated Employment Agreement, dated April 7, 2014, among the Company, Acadia Management Company, Inc. and Christopher L. Howard. (y)                                                                                                                                                                                                           |
| †10.17                    | Employment Agreement, dated April 7, 2014, by and among the Company, Acadia Management Company, Inc. and David M. Duckworth. (y)                                                                                                                                                                                                                            |
| †10.18                    | Employment Agreement, dated as of May 23, 2011, by and between the Company and Bruce A. Shear. (b)                                                                                                                                                                                                                                                          |
| †10.19                    | PHC, Inc.'s 1993 Stock Purchase and Option Plan, as amended December 2002. (z)                                                                                                                                                                                                                                                                              |
| †10.20                    | PHC, Inc.'s 1995 Non-Employee Director Stock Option Plan, as amended December 2002. (z)                                                                                                                                                                                                                                                                     |
| †10.21                    | PHC, Inc.'s 1995 Employee Stock Purchase Plan, as amended December 2002. (z)                                                                                                                                                                                                                                                                                |
| †10.22                    | PHC, Inc.'s 2004 Non-Employee Director Stock Option Plan. (aa)                                                                                                                                                                                                                                                                                              |
| †10.23                    | PHC, Inc.'s 2005 Employee Stock Purchase Plan. (bb)                                                                                                                                                                                                                                                                                                         |
| †10.24                    | PHC, Inc.'s 2003 Stock Purchase and Option Plan, as amended December 2007. (bb)                                                                                                                                                                                                                                                                             |

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| <u><b>Exhibit<br/>No.</b></u> | <u><b>Exhibit Description</b></u>                                                                                                                                                                                              |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| †10.25                        | Acadia Healthcare Company, Inc. Incentive Compensation Plan, effective May 23, 2013. (cc)                                                                                                                                      |
| †10.26                        | Form of Restricted Stock Unit Agreement. (b)                                                                                                                                                                                   |
| †10.27                        | Form of Incentive Stock Option Agreement. (b)                                                                                                                                                                                  |
| †10.28                        | Form of Non-Qualified Stock Option Agreement. (b)                                                                                                                                                                              |
| †10.29                        | Form of Restricted Stock Agreement. (b)                                                                                                                                                                                        |
| †10.30                        | Form of Stock Appreciation Rights Agreement. (b)                                                                                                                                                                               |
| †10.31                        | Acadia Healthcare Company, Inc. Nonqualified Deferred Compensation Plan, effective February 1, 2013. (dd)                                                                                                                      |
| †10.32                        | Nonmanagement Director Compensation Program, effective January 1, 2013. (dd)                                                                                                                                                   |
| 10.33                         | Form of Indemnification Agreement (for directors and officers affiliated with Waud Capital Partners or Bain Capital). (k)                                                                                                      |
| 10.34                         | Form of Indemnification Agreement (for directors and officers not affiliated with Waud Capital Partners or Bain Capital). (k)                                                                                                  |
| 10.35                         | Purchase Agreement, dated March 7, 2013, by and among the Company, the guarantors and Merrill Lynch, Pierce, Fenner & Smith Incorporated as representative of the initial purchasers named therein. (m)                        |
| 10.36                         | Purchase Agreement, dated June 17, 2014, by and among the Company, the guarantors, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC as representatives of the initial purchasers named therein. (l)        |
| 10.37                         | Purchase Agreement, dated February 5, 2015, by and among the Company, the guarantors, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC as representatives of the initial purchasers named therein. (ee)    |
| 10.38                         | Purchase Agreement, dated September 14, 2015, by and among the Company, the guarantors, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as representatives of the initial purchasers named therein. (gg) |
| 10.39                         | Purchase Agreement, dated February 4, 2016, by and among the Company, the guarantors, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC as representatives of the initial purchasers named therein. (ll)    |
| 21*                           | Subsidiaries of the Company.                                                                                                                                                                                                   |
| 23*                           | Consent of Independent Registered Public Accounting Firm.                                                                                                                                                                      |
| 31.1*                         | Rule 13a-14(a) Certification of the Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                          |
| 31.2*                         | Rule 13a-14(a) Certification of the Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                          |
| 32.1*                         | Section 1350 Certification of Chairman of the Board and Chief Executive Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                      |
| 32.2*                         | Section 1350 Certification of Chief Financial Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                |
| 101.INS**                     | XBRL Instance Document.                                                                                                                                                                                                        |
| 101.SCH**                     | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                       |

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| <u>Exhibit No.</u> | <u>Exhibit Description</u>                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 101.CAL**          | XBRL Taxonomy Calculation Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 101.LAB**          | XBRL Taxonomy Labels Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 101.PRE**          | XBRL Taxonomy Presentation Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                         |
| †                  | Indicates management contract or compensatory plan or arrangement.                                                                                                                                                                                                                                                                                                                                                                                                    |
| *                  | Filed herewith.                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| **                 | The XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document. |
| (a)                | Incorporated by reference to exhibits filed with PHC, Inc.'s Current Report on Form 8-K filed May 25, 2011 (File No. 001-33323).                                                                                                                                                                                                                                                                                                                                      |
| (b)                | Incorporated by reference to exhibits filed with the Company's registration statement on Form S-4, as amended (File No. 333-175523), originally filed with the SEC on July 13, 2011.                                                                                                                                                                                                                                                                                  |
| (c)                | Incorporated by reference to exhibits filed with PHC, Inc.'s Current Report on Form 8-K filed March 18, 2011 (File No. 001-33323).                                                                                                                                                                                                                                                                                                                                    |
| (d)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 5, 2012 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                                 |
| (e)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed September 4, 2012 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                               |
| (f)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 27, 2012 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                               |
| (g)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 2, 2013 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                                 |
| (h)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed April 4, 2013 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                                   |
| (i)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed June 6, 2014 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                                    |
| (j)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed October 30, 2014 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                                |
| (k)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 1, 2011 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                                |
| (l)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed June 18, 2014 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                                   |
| (m)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed March 12, 2013 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                                  |
| (n)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed July 2, 2014 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                                    |
| (o)                | Incorporated by reference to exhibits filed with the Company's registration statement on Form S-4 filed August 8, 2014 (File No. 333-198004).                                                                                                                                                                                                                                                                                                                         |
| (p)                | Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 12, 2015 (File No. 001-35331).                                                                                                                                                                                                                                                                                                                               |
| (q)                | Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2012 (File No. 001-35331).                                                                                                                                                                                                                                                                                                           |
| (r)                | Incorporated by reference to exhibits filed with the Company's registration statement on Form S-1, as amended (File No. 333-175523), originally filed with the SEC on November 23, 2011.                                                                                                                                                                                                                                                                              |
| (s)                | Incorporated by reference to exhibits filed with PHC, Inc.'s Current Report on Form 8-K filed May 13, 2004 (File No. 001-33323).                                                                                                                                                                                                                                                                                                                                      |
| (t)                | Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2013 (File No. 001-35331).                                                                                                                                                                                                                                                                                                           |
| (u)                | Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2013 (File No. 001-35331).                                                                                                                                                                                                                                                                                                      |

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- (v) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 19, 2014 (File No. 001-35331).
- (w) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed June 17, 2014 (File No. 001-35331).
- (x) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed December 15, 2014 (File No. 001-35331).
- (y) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed April 11, 2014 (File No. 001-35331).
- (z) Incorporated by reference to exhibits filed with PHC, Inc.'s registration statement on Form S-8 filed January 8, 2003 (File No. 333-102402).
- (aa) Incorporated by reference to exhibits filed with PHC, Inc.'s registration statement on Form S-8 filed April 5, 2005 (File No. 333-123842).
- (bb) Incorporated by reference to exhibits filed with PHC, Inc.'s registration statement on Form S-8 filed March 6, 2008 (File No. 333-149579).
- (cc) Incorporated by reference to exhibits filed with the Company's registration statement on Form S-8 filed July 30, 2013 (File No. 333-190232).
- (dd) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2013 (File No. 001-35331).
- (ee) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 6, 2015 (File No. 001-35331).
- (ff) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2015 (File No. 001-35331).
- (gg) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed September 15, 2015 (File No. 001-35331).
- (hh) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed September 21, 2015 (File No. 001-35331).
- (ii) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 4, 2016 (File No. 001-35331).
- (jj) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 8, 2016 (File No. 001-35331).
- (kk) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 27, 2016 (File No. 001-35331).
- (ll) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 5, 2016 (File No. 001-35331).
- (mm) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 16, 2016 (File No. 001-35331).



June 27, 2016

9:26 am

Exhibit 21

## LIST OF SUBSIDIARIES

| Name of Subsidiary<br>(including dba name, if applicable) | Jurisdiction / Country of Incorporation or Organization |
|-----------------------------------------------------------|---------------------------------------------------------|
| Abilene Behavioral Health, LLC                            | Delaware                                                |
| Abilene Holding Company, LLC                              | Delaware                                                |
| Acadia Management Company, LLC                            | Delaware                                                |
| Acadia Merger Sub, LLC                                    | Delaware                                                |
| Acadiana Addiction Center, LLC                            | Delaware                                                |
| dba Acadiana Addiction Center                             |                                                         |
| Advanced Treatment Systems, LLC                           | Virginia                                                |
| dba Coatesville Treatment Center                          |                                                         |
| dba Lebanon Treatment Center                              |                                                         |
| Affinity Healthcare Holdings Limited                      | United Kingdom                                          |
| Affinity Healthcare Limited                               | United Kingdom                                          |
| Affinity Hospitals Group Limited                          | United Kingdom                                          |
| Affinity Hospitals Holdings Limited                       | United Kingdom                                          |
| Affinity Hospitals Limited                                | United Kingdom                                          |
| Amore (Ben Madigan) Limited                               | United Kingdom                                          |
| Amore (Boume) Limited                                     | United Kingdom                                          |
| Amore (Cockermouth) Limited                               | United Kingdom                                          |
| Amore (Coventry) Limited                                  | Isle of Man                                             |
| Amore (Ings Road) Limited                                 | United Kingdom                                          |
| Amore (Prestwick) Limited                                 | United Kingdom                                          |
| Amore (Stoke 1) Limited                                   | United Kingdom                                          |
| Amore (Stoke 2) Limited                                   | United Kingdom                                          |
| Amore (Warrenpoint) Limited                               | United Kingdom                                          |
| Amore (Watton) Limited                                    | United Kingdom                                          |
| Amore (Wednesfield 1) Limited                             | United Kingdom                                          |
| Amore (Wednesfield 2) Limited                             | United Kingdom                                          |
| Amore Care (Holdings) Limited                             | United Kingdom                                          |
| Amore Care Limited                                        | United Kingdom                                          |
| Amore Elderly Care (Wednesfield) Limited                  | United Kingdom                                          |
| Amore Elderly Care Holdings Limited                       | United Kingdom                                          |
| Amore Elderly Care Limited                                | United Kingdom                                          |
| Amore Group (Holdings) Limited                            | United Kingdom                                          |
| Ascent Acquisition - CYPDC, LLC                           | Arkansas                                                |
| Ascent Acquisition - PSC, LLC                             | Arkansas                                                |
| Ascent Acquisition, LLC                                   | Arkansas                                                |
| dba Ascent Children's Health Services                     |                                                         |
| dba Ascent                                                |                                                         |
| Aspen Education Group, Inc.                               | California                                              |
| Aspen Youth, Inc.                                         | California                                              |
| Atlanta Recovery Center, LLC                              | Delaware                                                |
| ATS of Cecil County, LLC                                  | Virginia                                                |
| dba Cumberland Treatment Center                           |                                                         |
| dba Elkton Treatment Center                               |                                                         |
| dba Pine Heights Treatment Center                         |                                                         |
| ATS of Delaware, LLC                                      | Virginia                                                |
| dba Claymont Treatment Center                             |                                                         |
| ATS of North Carolina, LLC                                | Virginia                                                |
| dba Carolina Treatment Center of Fayetteville             |                                                         |
| dba Carolina Treatment Center Of Pinchurst                |                                                         |
| dba Carolina Treatment Center Of Goldsboro                |                                                         |
| dba Cumberland County Treatment Center                    |                                                         |
| dba Mountain Health Solutions – North Wilkesboro          |                                                         |
| dba Mountain Health Solutions – Asheville                 |                                                         |



**SUPPLEMENTAL #1****June 27, 2016****9:26 am**

| Name of Subsidiary<br>(including dba name, if applicable)                                                                                         | Jurisdiction / Country of Incorporation or Organization |
|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| Austin Behavioral Hospital, LLC<br>dba Cross Creek Hospital                                                                                       | Delaware                                                |
| Austin Eating Disorders Partners, LLC                                                                                                             | Missouri                                                |
| Autism (GB) Limited                                                                                                                               | United Kingdom                                          |
| Autism TASCC Services Limited                                                                                                                     | United Kingdom                                          |
| Baton Rouge Treatment Center, LLC<br>dba Baton Rouge Treatment Center<br>dba North Louisiana Treatment Center<br>dba North Shore Treatment Center | Louisiana                                               |
| Bayside Marin, Inc.<br>dba Bayside Marin I<br>dba Bayside Marin II<br>dba Bayside Marin III<br>dba Bayside Marin IV                               | Delaware                                                |
| BCA of Detroit, LLC                                                                                                                               | Delaware                                                |
| Beckley Treatment Center, LLC<br>dba Beckley Treatment Center                                                                                     | West Virginia                                           |
| Behavioral Centers of America, LLC                                                                                                                | Delaware                                                |
| Belmont Behavioral Hospital, LLC                                                                                                                  | Delaware                                                |
| Belmont Physician Services, LLC                                                                                                                   | Delaware                                                |
| Bethlehem Behavioral Health, LLC                                                                                                                  | Delaware                                                |
| BGI of Brandywine, LLC<br>dba Bowling Green at Brandywine                                                                                         | Virginia                                                |
| Blenheim Healthcare Limited                                                                                                                       | United Kingdom                                          |
| Blue Ridge Mountain Recovery Center, LLC                                                                                                          | Delaware                                                |
| Bowling Green Inn of Pensacola, LLC<br>dba Twelve Oaks Treatment Center<br>dba Wellness Resource Center                                           | Virginia                                                |
| Bowling Green Inn of South Dakota, Inc.<br>dba Keystone Treatment Center                                                                          | Virginia                                                |
| Burnside Care Limited                                                                                                                             | United Kingdom                                          |
| California Treatment Services, LLC<br>dba Recovery Solutions of Santa Ana                                                                         | California                                              |
| Capestrano Investment Company, Inc.                                                                                                               | Puerto Rico                                             |
| Capestrano Realty Company, Inc.                                                                                                                   | Puerto Rico                                             |
| CAPS of Virginia, LLC                                                                                                                             | Virginia                                                |
| Care Continuums Limited                                                                                                                           | United Kingdom                                          |
| Cartersville Center, LLC<br>dba Cartersville Center                                                                                               | Georgia                                                 |
| Cascade Behavioral Holding Company, LLC                                                                                                           | Delaware                                                |
| Cascade Behavioral Hospital, LLC                                                                                                                  | Delaware                                                |
| Castle Homes Care Limited                                                                                                                         | United Kingdom                                          |
| Castle Homes Limited                                                                                                                              | United Kingdom                                          |
| Castlecare Cymru Limited                                                                                                                          | United Kingdom                                          |
| Castlecare Education Limited                                                                                                                      | United Kingdom                                          |
| Castlecare Group Limited                                                                                                                          | United Kingdom                                          |
| Castlecare Holdings Limited                                                                                                                       | United Kingdom                                          |
| Center for Behavioral Health-HA, LLC                                                                                                              | Pennsylvania                                            |
| Center for Behavioral Health-ME, Inc.<br>dba Discovery House                                                                                      | Maine                                                   |
| Center for Behavioral Health-PA, LLC                                                                                                              | Pennsylvania                                            |
| Centerpointe Community Based Services, LLC                                                                                                        | Indiana                                                 |
| Charleston Treatment Center, LLC<br>dba Charleston Treatment Center                                                                               | West Virginia                                           |
| Cheadle Royal Healthcare Limited                                                                                                                  | United Kingdom                                          |
| Cheadle Royal Hospital Limited                                                                                                                    | United Kingdom                                          |

**SUPPLEMENTAL #1****June 27, 2016****9:26 am****Name of Subsidiary***(including dba name, if applicable)***Jurisdiction / Country of Incorporation or Organization**

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Chcadle Royal Residential Services Limited                                                                                                                                                                                                                                                                                                                                                                                                                         | United Kingdom |
| Chelfham Senior School Limited                                                                                                                                                                                                                                                                                                                                                                                                                                     | United Kingdom |
| Clarksburg Treatment Center, LLC<br>dba Clarksburg Treatment Center                                                                                                                                                                                                                                                                                                                                                                                                | West Virginia  |
| CO Devlopments Limited                                                                                                                                                                                                                                                                                                                                                                                                                                             | United Kingdom |
| Cockermouth Propco Limited                                                                                                                                                                                                                                                                                                                                                                                                                                         | United Kingdom |
| Commodore Acquisition Sub, LLC                                                                                                                                                                                                                                                                                                                                                                                                                                     | Delaware       |
| Community Addiction Services Limited                                                                                                                                                                                                                                                                                                                                                                                                                               | United Kingdom |
| Conquest Care Homes (Norfolk) Limited                                                                                                                                                                                                                                                                                                                                                                                                                              | United Kingdom |
| Conquest Care Homes (Peterborough) Limited                                                                                                                                                                                                                                                                                                                                                                                                                         | United Kingdom |
| Conquest Care Homes (Soham) Limited                                                                                                                                                                                                                                                                                                                                                                                                                                | United Kingdom |
| Cotswold Care Services Limited                                                                                                                                                                                                                                                                                                                                                                                                                                     | United Kingdom |
| Coxlease Holdings Limited                                                                                                                                                                                                                                                                                                                                                                                                                                          | United Kingdom |
| Coxlease School Limited                                                                                                                                                                                                                                                                                                                                                                                                                                            | United Kingdom |
| CPCA, LLC                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Delaware       |
| Craegmoor (Harbour Care) Limited                                                                                                                                                                                                                                                                                                                                                                                                                                   | United Kingdom |
| Craegmoor Care (Holdings) Limited                                                                                                                                                                                                                                                                                                                                                                                                                                  | United Kingdom |
| Craegmoor Facilities Company Limited                                                                                                                                                                                                                                                                                                                                                                                                                               | United Kingdom |
| Craegmoor Group (No.1) Limited                                                                                                                                                                                                                                                                                                                                                                                                                                     | United Kingdom |
| Craegmoor Group (No.2) Limited                                                                                                                                                                                                                                                                                                                                                                                                                                     | United Kingdom |
| Craegmoor Group (No.3) Limited                                                                                                                                                                                                                                                                                                                                                                                                                                     | United Kingdom |
| Craegmoor Group (No.5) Limited                                                                                                                                                                                                                                                                                                                                                                                                                                     | United Kingdom |
| Craegmoor Group (No.6) Limited                                                                                                                                                                                                                                                                                                                                                                                                                                     | United Kingdom |
| Craegmoor Group Limited                                                                                                                                                                                                                                                                                                                                                                                                                                            | United Kingdom |
| Craegmoor Healthcare Company Limited                                                                                                                                                                                                                                                                                                                                                                                                                               | United Kingdom |
| Craegmoor Holdings Limited                                                                                                                                                                                                                                                                                                                                                                                                                                         | United Kingdom |
| Craegmoor Homes Limited                                                                                                                                                                                                                                                                                                                                                                                                                                            | United Kingdom |
| Craegmoor Hospitals (Holdings) Limited                                                                                                                                                                                                                                                                                                                                                                                                                             | United Kingdom |
| Craegmoor Hospitals Limited                                                                                                                                                                                                                                                                                                                                                                                                                                        | United Kingdom |
| Craegmoor Learning (Holdings) Limited                                                                                                                                                                                                                                                                                                                                                                                                                              | United Kingdom |
| Craegmoor Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                  | United Kingdom |
| Craegmoor Supporting You Limited                                                                                                                                                                                                                                                                                                                                                                                                                                   | United Kingdom |
| CRC ED Treatment, LLC<br>dba Center for Hope of the Sierras<br>dba Montecatini<br>dba Montecatini II<br>dba Carolina House<br>dba Carolina House-Raleigh<br>dba Montecatini Outpatient Treatment Center                                                                                                                                                                                                                                                            | Delaware       |
| CRC Group, LLC                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Delaware       |
| CRC Health Management, Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                        | Delaware       |
| CRC Health Oregon, Inc.<br>dba Allied Health Services Portland -Alder<br>dba Allied Health Services Ontario<br>dba Allied Health Services Portland - Belmont<br>dba Allied Health Services East<br>dba Allied Health Services Portland - Burnside<br>dba Allied Health Services Beaverton<br>dba Allied Health Services - Medford<br>dba Health Services Treasure Valley<br>dba Willamette Valley Treatment Center<br>dba Allied Health Services for Drug Recovery | Oregon         |

**SUPPLEMENTAL #1****June 27, 2016****9:26 am**

| <b>Name of Subsidiary</b><br><i>(including dba name, if applicable)</i> | <b>Jurisdiction / Country of Incorporation or Organization</b> |
|-------------------------------------------------------------------------|----------------------------------------------------------------|
| CRC Health Tennessee, LLC                                               | Tennessee                                                      |
| dba New Life Lodge                                                      |                                                                |
| dba New Life Recovery Services-Cookeville                               |                                                                |
| dba Mirrorlake Recovery Center                                          |                                                                |
| dba New Life Recovery Services-Jacksboro                                |                                                                |
| dba New Life Recovery Services-Jamestown                                |                                                                |
| dba New Life Recovery Services-Knoxville                                |                                                                |
| dba New Life Recovery Services-Knoxville West                           |                                                                |
| CRC Health Treatment Clinics, LLC                                       | Delaware                                                       |
| dba North Florida Treatment Center                                      |                                                                |
| CRC Health, LLC                                                         | Delaware                                                       |
| dba eGetgoing                                                           |                                                                |
| CRC Recovery, Inc.                                                      | Delaware                                                       |
| dba Midcoast Treatment Center                                           |                                                                |
| dba Cedar Rapids Treatment Center                                       |                                                                |
| dba Ann Arbor Treatment Center                                          |                                                                |
| dba Western Michigan Treatment Center                                   |                                                                |
| CRC Wisconsin RD, LLC                                                   | Wisconsin                                                      |
| dba Burkwood Treatment Center                                           |                                                                |
| Crestwyn Health Group, LLC                                              | Tennessee                                                      |
| Crossroads Regional Hospital, LLC                                       | Delaware                                                       |
| dba Longleaf Hospital                                                   |                                                                |
| Delta Medical Services, LLC                                             | Tennessee                                                      |
| Detroit Behavioral Institute, Inc.                                      | Massachusetts                                                  |
| DHG Services, LLC                                                       | Delaware                                                       |
| Discovery House BC, LLC                                                 | Pennsylvania                                                   |
| Discovery House CC, LLC                                                 | Pennsylvania                                                   |
| Discovery House CU, LLC                                                 | Pennsylvania                                                   |
| Discovery House-LT, Inc.                                                | Utah                                                           |
| Discovery House MA, Inc.                                                | Maine                                                          |
| Discovery House Monroeville, LLC                                        | Pennsylvania                                                   |
| Discovery House of Central Maine, Inc.                                  | Maine                                                          |
| Discovery House Utah, Inc.                                              | Utah                                                           |
| Discovery House UC, Inc.                                                | Utah                                                           |
| Discovery House WC, Inc.                                                | Maine                                                          |
| Discovery House, LLC                                                    | Pennsylvania                                                   |
| Discovery House-BR, Inc.                                                | Maine                                                          |
| Discovery House-Group, LLC                                              | Delaware                                                       |
| Discovery House-HZ, LLC                                                 | Pennsylvania                                                   |
| Discovery House-NC, LLC                                                 | Pennsylvania                                                   |
| Discovery House TV, Inc.                                                | Utah                                                           |
| DMC-Memphis, LLC                                                        | Tennessee                                                      |
| Duffy's Napa Valley Rehab, LLC                                          | Delaware                                                       |
| Dunhall Property Limited                                                | United Kingdom                                                 |
| East Indiana Treatment Center, LLC                                      | Indiana                                                        |
| dba East Indiana Treatment Center                                       |                                                                |
| Eastwood Grange Company Limited                                         | United Kingdom                                                 |
| Eating Disorder Treatment Associates, LLC                               | Kansas                                                         |
| Employee Management Services Limited                                    | United Kingdom                                                 |
| Evansville Treatment Center, LLC                                        | Indiana                                                        |
| dba Evansville Treatment Center                                         |                                                                |
| Fanplate Limited                                                        | United Kingdom                                                 |
| Farleigh Schools Limited                                                | United Kingdom                                                 |
| Farm Place Limited                                                      | United Kingdom                                                 |
| Ferguson Care Limited                                                   | United Kingdom                                                 |
| Four Circles Recovery Center, LLC                                       | Delaware                                                       |
| dba Four Circles Evolution                                              |                                                                |
| Fulford Grange Medical Centre Limited                                   | United Kingdom                                                 |

June 27, 2016

9:26 am

| Name of Subsidiary                                                                                                              | Jurisdiction / Country of Incorporation or Organization |
|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| <i>(including dba name, if applicable)</i>                                                                                      |                                                         |
| Galax Treatment Center, LLC<br>dba Life Center of Galax<br>dba New River Treatment Center<br>dba Clinch Valley Treatment Center | Virginia                                                |
| Generations BH, LLC                                                                                                             | Ohio                                                    |
| Glentworth House Limited                                                                                                        | England and Wales                                       |
| Greenbrier Acquisition, LLC                                                                                                     | Delaware                                                |
| Greenbrier Holdings, L.L.C.                                                                                                     | Louisiana                                               |
| Greenbrier Hospital, L.L.C.                                                                                                     | Louisiana                                               |
| Greenbrier Realty, L.L.C.                                                                                                       | Louisiana                                               |
| Greenleaf Center, LLC<br>dba Greenleaf Center                                                                                   | Delaware                                                |
| Greymount Properties Limited                                                                                                    | United Kingdom                                          |
| Grovedraft Limited                                                                                                              | United Kingdom                                          |
| Habilitation Center, LLC                                                                                                        | Arkansas                                                |
| Habit Opco, Inc.                                                                                                                | Delaware                                                |
| Harbour Care (UK) Limited                                                                                                       | United Kingdom                                          |
| Health & Care Services (NW) Limited                                                                                             | United Kingdom                                          |
| Health & Care Services (UK) Limited                                                                                             | United Kingdom                                          |
| Heddfan Care Limited                                                                                                            | United Kingdom                                          |
| Helden Homes Limited                                                                                                            | United Kingdom                                          |
| Hermitage Behavioral, LLC                                                                                                       | Delaware                                                |
| High Quality Lifestyles Limited                                                                                                 | United Kingdom                                          |
| Highbank Private Hospital Limited                                                                                               | United Kingdom                                          |
| HMIH Cedar Crest, LLC                                                                                                           | Delaware                                                |
| Huntington Treatment Center, LLC<br>dba Huntington Treatment Center                                                             | West Virginia                                           |
| Independent Community Living (Holdings) Limited                                                                                 | United Kingdom                                          |
| Indianapolis Treatment Center, LLC<br>dba Indianapolis Treatment Center                                                         | Indiana                                                 |
| IVRTC, LLC                                                                                                                      | Delaware                                                |
| J C Care Limited                                                                                                                | United Kingdom                                          |
| Jacques Hall Developments Limited                                                                                               | United Kingdom                                          |
| Jacques Hall Limited                                                                                                            | United Kingdom                                          |
| Johnston Care Limited                                                                                                           | United Kingdom                                          |
| Kids Behavioral Health of Montana, Inc.<br>dba Acadia Montana                                                                   | Montana                                                 |
| Lakeland Hospital Acquisition, LLC<br>dba Lakeland Regional Hospital<br>dba Lakeland Behavioral Health System                   | Georgia                                                 |
| Lambs Support Services Limited                                                                                                  | United Kingdom                                          |
| Lansdowne Road Limited                                                                                                          | United Kingdom                                          |
| Libra Health Limited                                                                                                            | United Kingdom                                          |
| Libra Nursing Homes Limited                                                                                                     | United Kingdom                                          |
| Life Works Community Limited                                                                                                    | United Kingdom                                          |
| Lothlorien Community Limited                                                                                                    | United Kingdom                                          |
| Manor Hall Specialists Care Partnerships Limited                                                                                | England and Wales                                       |
| Mark College Limited                                                                                                            | United Kingdom                                          |
| McCallum Group, LLC                                                                                                             | Missouri                                                |
| McCallum Properties, LLC                                                                                                        | Missouri                                                |
| Medical Imaging (Essex) Limited                                                                                                 | United Kingdom                                          |
| Middleton St George Healthcare Limited                                                                                          | United Kingdom                                          |
| Millcreek School of Arkansas, LLC                                                                                               | Arkansas                                                |
| Millcreek Schools, LLC                                                                                                          | Mississippi                                             |

**SUPPLEMENTAL #1****June 27, 2016****9:26 am****Name of Subsidiary***(including dba name, if applicable)***Jurisdiction / Country of Incorporation or Organization**

|                                                                   |                          |
|-------------------------------------------------------------------|--------------------------|
| Milwaukee Health Services System, LLC                             | California               |
| dba 10th Street Clinic                                            |                          |
| dba River's Shore Clinic                                          |                          |
| dba Madison Health Services                                       |                          |
| dba Valley Health Services                                        |                          |
| dba Wausau Health Services                                        |                          |
| Mount Bachelor Educational Center, Inc.                           | Oregon                   |
| Name of Subsidiary                                                | Country of Incorporation |
| New Directions (Bexhill) Limited                                  | United Kingdom           |
| New Directions (Hastings) Limited                                 | United Kingdom           |
| New Directions (Robertsbridge) Limited                            | United Kingdom           |
| New Directions (St. Leonards on Sea) Limited                      | United Kingdom           |
| New Leaf Academy, Inc.                                            | Oregon                   |
| dba New Leaf Academy                                              |                          |
| North Hill House Limited                                          | United Kingdom           |
| Northeast Behavioral Health, LLC                                  | Delaware                 |
| Nottcor 6 Limited                                                 | United Kingdom           |
| Oaktree Care Group Limited                                        | England and Wales        |
| Ohio Hospital for Psychiatry, LLC                                 | Ohio                     |
| Options Treatment Center Acquisition Corporation                  | Indiana                  |
| dba Options Behavioral Health System                              |                          |
| dba Options Treatment Center                                      |                          |
| dba YFCS OPT                                                      |                          |
| Park Royal Fee Owner, LLC                                         | Delaware                 |
| Parkcare Homes (No. 2) Limited                                    | United Kingdom           |
| Parkcare Homes Limited                                            | United Kingdom           |
| Parkersburg Treatment Center, LLC                                 | West Virginia            |
| dba Parkersburg Treatment Center                                  |                          |
| Partnerships in Care (Albion) Limited                             | England and Wales        |
| Partnerships in Care (Beverley) Limited                           | England and Wales        |
| Partnerships in Care (Bromley Road) Limited                       | England and Wales        |
| Partnerships in Care (Brunswick) Limited                          | England and Wales        |
| Partnerships in Care (Cardiff) Limited                            | England and Wales        |
| Partnerships in Care (Cleveland 1) Limited                        | England and Wales        |
| Partnerships in Care (Cleveland) Limited                          | England and Wales        |
| Partnerships in Care (Cleveland) Property Holding Company Limited | England and Wales        |
| Partnerships in Care (Irydene) Limited                            | England and Wales        |
| Partnerships in Care (Nelson) Limited                             | England and Wales        |
| Partnerships in Care (Oak Vale) Holding Company Limited           | England and Wales        |
| Partnerships in Care (Oak Vale) Limited                           | England and Wales        |
| Partnerships in Care (Oak Vale) Property Holding Company Limited  | England and Wales        |
| Partnerships in Care (Pastoral) Limited                           | England and Wales        |
| Partnerships in Care (Rhondda) Limited                            | England and Wales        |
| Partnerships in Care (Schools) Limited                            | England and Wales        |
| Partnerships in Care (Scotland) Limited                           | England and Wales        |
| Partnerships in Care (Vancouver) Holding Company Limited          | England and Wales        |
| Partnerships in Care (Vancouver) Limited                          | England and Wales        |
| Partnerships in Care (Vancouver) Property Holding Company Limited | England and Wales        |
| Partnerships in Care 1 Limited                                    | England and Wales        |
| Partnerships in Care Investments 1 Limited                        | England and Wales        |
| Partnerships in Care Investments 2 Limited                        | England and Wales        |
| Partnerships in Care Limited                                      | England and Wales        |
| Partnerships in Care Management Limited                           | England and Wales        |
| Partnerships in Care Management 2 Limited                         | England and Wales        |
| Partnerships in Care Property 1 Limited                           | England and Wales        |
| Partnerships in Care Property 2 Limited                           | England and Wales        |
| Partnerships in Care Property 3 Limited                           | England and Wales        |
| Partnerships in Care Property 4 Limited                           | England and Wales        |

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**9:26 am**

**Name of Subsidiary**

*(including dba name, if applicable)*

**Jurisdiction / Country of Incorporation or Organization**

|                                                       |                   |
|-------------------------------------------------------|-------------------|
| Partnerships in Care Property 5 Limited               | England and Wales |
| Partnerships in Care Property 6 Limited               | England and Wales |
| Partnerships in Care Property 7 Limited               | England and Wales |
| Partnerships in Care Property 8 Limited               | England and Wales |
| Partnerships in Care Property 9 Limited               | England and Wales |
| Partnerships in Care Property 10 Limited              | England and Wales |
| Partnerships in Care Property 11 Limited              | England and Wales |
| Partnerships in Care Property 12 Limited              | England and Wales |
| Partnerships in Care Property 13 Limited              | England and Wales |
| Partnerships in Care Property 14 Limited              | England and Wales |
| Partnerships in Care Property 15 Limited              | England and Wales |
| Partnerships in Care Property 16 Limited              | England and Wales |
| Partnerships in Care Property 17 Limited              | England and Wales |
| Partnerships in Care Property 18 Limited              | England and Wales |
| Partnerships in Care Property 19 Limited              | England and Wales |
| Partnerships in Care Property 20 Limited              | England and Wales |
| Partnerships in Care Property 21 Limited              | England and Wales |
| Partnerships in Care Property 22 Limited              | England and Wales |
| Partnerships in Care Property 23 Limited              | England and Wales |
| Partnerships in Care Property 24 Limited              | England and Wales |
| Partnerships in Care Property 25 Limited              | England and Wales |
| Partnerships in Care Property 26 Limited              | England and Wales |
| Partnerships in Care Property 27 Limited              | England and Wales |
| Partnerships in Care Property 28 Limited              | England and Wales |
| Partnerships in Care Property 29 Limited              | England and Wales |
| Partnerships in Care Property 30 Limited              | England and Wales |
| Partnerships in Care Property 31 Limited              | England and Wales |
| Partnerships in Care Property Holding Company Limited | England and Wales |
| Partnerships in Care UK 1 Limited                     | England and Wales |
| Partnerships in Care UK 2 Limited                     | England and Wales |
| Peninsula Autism Services and Support Limited         | England and Wales |
| PHC MeadowWood, LLC                                   | United Kingdom    |
| PHC of Michigan, Inc.                                 | Delaware          |
| PHC of Nevada, Inc.                                   | Massachusetts     |
| PHC of Utah, Inc.                                     | Massachusetts     |
| PHC of Virginia, LLC                                  | Massachusetts     |
| Piney Ridge Treatment Center, LLC                     | Massachusetts     |
| dba Piney Ridge Treatment Center                      | Delaware          |
| dba Piney Ridge Center                                |                   |
| dba Ridgeview Group Home                              |                   |
| Pomegranate Acquisition Sub, LLC                      | Delaware          |
| Positive Living Limited                               | United Kingdom    |
| Priory (Thetford 1) Limited                           | United Kingdom    |
| Priory (Thetford 2) Limited                           | United Kingdom    |
| Priory (Troup House) Limited                          | United Kingdom    |
| Priory Behavioural Health Limited                     | United Kingdom    |
| Priory Bristol (Property) Limited                     | Cayman Islands    |
| Priory Care Homes Holdings Limited                    | United Kingdom    |
| Priory Central Services Limited                       | United Kingdom    |
| Priory Chadwick Lodge (Property) Limited              | Cayman Islands    |
| Priory Coach House (Property) Limited                 | Cayman Islands    |
| Priory Condoover (Property) Limited                   | Cayman Islands    |
| Priory Coombe House (Property) Limited                | Cayman Islands    |
| Priory Eastwood Grange (Property) Limited             | Cayman Islands    |
| Priory Eden Grove (Property) Limited                  | Cayman Islands    |
| Priory Education Services Limited                     | United Kingdom    |

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## Name of Subsidiary

## Jurisdiction / Country of Incorporation or Organization

(including dba name, if applicable)

|                                                 |                |
|-------------------------------------------------|----------------|
| Priory Farm Place (Property) Limited            | Cayman Islands |
| Priory Farmfield Limited                        | United Kingdom |
| Priory Finance Company Limited                  | Cayman Islands |
| Priory Finance Property Holdings No. 1 Limited  | United Kingdom |
| Priory Finance Property Holdings No. 2 Limited  | United Kingdom |
| Priory Finance Property LLP                     | United Kingdom |
| Priory Grange (Holdings) Limited                | United Kingdom |
| Priory Grange (Potters Bar) Limited             | United Kingdom |
| Priory Grange (St Neots) Limited                | United Kingdom |
| Priory Group Limited                            | United Kingdom |
| Priory Group No. 1 Limited                      | United Kingdom |
| Priory Group No. 2 Limited                      | United Kingdom |
| Priory Group No. 3 PLC                          | United Kingdom |
| Priory Health No. 1 Limited                     | Cayman Islands |
| Priory Health No. 2 Limited                     | Cayman Islands |
| Priory Healthcare Europe Limited                | United Kingdom |
| Priory Healthcare Finance Co Limited            | United Kingdom |
| Priory Healthcare Holdings Limited              | United Kingdom |
| Priory Healthcare Investments Limited           | United Kingdom |
| Priory Healthcare Investments Trustee Limited   | United Kingdom |
| Priory Healthcare Limited                       | United Kingdom |
| Priory Healthcare Services Limited              | United Kingdom |
| Priory Hemel Grange (Property) Limited          | Cayman Islands |
| Priory Holdings Company No. 1 Limited           | Cayman Islands |
| Priory Holdings Company No. 2 Limited           | Cayman Islands |
| Priory Holdings Company No. 3 Limited           | Cayman Islands |
| Priory Hospitals Limited                        | United Kingdom |
| Priory Hove (Property) Limited                  | Cayman Islands |
| Priory Investments Holdings Limited             | Cayman Islands |
| Priory Jacques Hall (Property) Limited          | Cayman Islands |
| Priory Marchwood (Property) Limited             | Cayman Islands |
| Priory Mark College (Property) Limited          | Cayman Islands |
| Priory New Education Services Limited           | United Kingdom |
| Priory New Investments Limited                  | United Kingdom |
| Priory New Investments No. 2 Limited            | United Kingdom |
| Priory New Investments No. 3 Limited            | United Kingdom |
| Priory Nottingham (Property) Limited            | Cayman Islands |
| Priory Old Acute Services Limited               | United Kingdom |
| Priory Old Forensic Services Limited            | United Kingdom |
| Priory Old Grange Services Limited              | United Kingdom |
| Priory Old Schools Services Limited             | United Kingdom |
| Priory Pension Trustee Limited                  | United Kingdom |
| Priory Rehabilitation Services Holdings Limited | United Kingdom |
| Priory Rehabilitation Services Limited          | United Kingdom |
| Priory Rochampton (Property) Limited            | Cayman Islands |
| Priory Secure Services Limited                  | United Kingdom |
| Priory Securitisation Holdings Limited          | United Kingdom |
| Priory Securitisation Limited                   | United Kingdom |
| Priory Services for Young People Limited        | Isle of Man    |
| Priory Sheridan House (Property) Limited        | Cayman Islands |
| Priory Sketchley Hall (Property) Limited        | Cayman Islands |
| Priory Solutions (Property) Limited             | Cayman Islands |
| Priory Specialist Health Division Limited       | United Kingdom |
| Priory Specialist Health Limited                | United Kingdom |
| Priory Sturt (Property) Limited                 | Cayman Islands |
| Priory Tadley Court (Property) Limited          | Cayman Islands |

**SUPPLEMENTAL #1****June 27, 2016****9:26 am**

| Name of Subsidiary<br>(including dba name, if applicable) | Jurisdiction / Country of Incorporation or Organization |
|-----------------------------------------------------------|---------------------------------------------------------|
| Priory Unsted Park (Property) Limited                     | Cayman Islands                                          |
| Priory Widnes (Property) Limited                          | Cayman Islands                                          |
| Progress Audit Services Limited                           | United Kingdom                                          |
| Progress Care (Holdings) Limited                          | United Kingdom                                          |
| Progress Care and Education Limited                       | United Kingdom                                          |
| Psychiatric Resource Partners, LLC                        | Delaware                                                |
| Public Health Solutions Limited                           | United Kingdom                                          |
| Quality Addiction Management, Inc.                        | Wisconsin                                               |
| Quantum Care (UK) Limited                                 | United Kingdom                                          |
| R.I.S.A.T., LLC                                           | Rhode Island                                            |
| R.J. Homes Limited                                        | United Kingdom                                          |
| Rebound Behavioral Health, LLC                            | South Carolina                                          |
| Red River Holding Company, LLC                            | Delaware                                                |
| Red River Hospital, LLC                                   | Delaware                                                |
| Rehabilitation Centers, LLC                               | Mississippi                                             |
| dba Millcreek of Magee                                    |                                                         |
| dba Millcreek of Pontotoc                                 |                                                         |
| Renova LLP                                                | United Kingdom                                          |
| Resolute Acquisition Corporation                          | Indiana                                                 |
| dba Resolute Treatment Center                             |                                                         |
| dba Resolute Treatment Facility                           |                                                         |
| dba YFCS REL                                              |                                                         |
| dba Resolute                                              |                                                         |
| dba Polaris Group Home                                    |                                                         |
| Richmond Treatment Center, LLC                            | Indiana                                                 |
| dba Richmond Treatment Center                             |                                                         |
| Riverview Behavioral Health, LLC                          | Texas                                                   |
| dba Vista Health Texarkana                                |                                                         |
| dba Riverview Behavioral Health                           |                                                         |
| RiverWoods Behavioral Health, LLC                         | Delaware                                                |
| dba Riverwoods Behavioral Health                          |                                                         |
| dba Blue Ridge Mountain Recovery Center                   |                                                         |
| Robinson Kay House (Bury) Limited                         | United Kingdom                                          |
| Rolling Hills Hospital, LLC                               | Oklahoma                                                |
| Rossendale School Limited                                 | United Kingdom                                          |
| Rothcare Estates Limited                                  | United Kingdom                                          |
| RTC Resource Acquisition Corporation                      | Indiana                                                 |
| dba YFCS RES                                              |                                                         |
| dba Resource Treatment Facility                           |                                                         |
| dba RTC Resource                                          |                                                         |
| SP Cockermouth Limited                                    | United Kingdom                                          |
| Sahara Health Systems, L.L.C.                             | Louisiana                                               |
| San Diego Health Alliance                                 | California                                              |
| dba Capalina Clinic                                       |                                                         |
| dba El Cajon Treatment Center                             |                                                         |
| dba Fashion Valley Clinic                                 |                                                         |
| San Diego Treatment Services, LLC                         | California                                              |
| dba Home Avenue Clinic                                    |                                                         |
| dba Third Avenue Clinic                                   |                                                         |
| San Juan Capestrano Hospital, Inc.                        | Puerto Rico                                             |
| Sapphire Care Services Limited                            | United Kingdom                                          |
| Seven Hills Hospital, Inc.                                | Delaware                                                |
| Shaker Clinic, LLC                                        | Ohio                                                    |
| Sheltered Living Incorporated                             | Texas                                                   |
| dba Life Healing Center of Santa Fe                       |                                                         |



**SUPPLEMENTAL #1****June 27, 2016****9:26 am****Name of Subsidiary***(including dba name, if applicable)***Jurisdiction / Country of Incorporation or Organization**

|                                                                                                                                                                                                                                                                                                                                                                                          |                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Sierra Tucson Inc.<br>dba Sierra Tucson                                                                                                                                                                                                                                                                                                                                                  | Delaware       |
| SJBH, LLC                                                                                                                                                                                                                                                                                                                                                                                | Delaware       |
| Skyway House, LLC                                                                                                                                                                                                                                                                                                                                                                        | Delaware       |
| Sober Living by the Sea, Inc.<br>dba Sunrise Recovery Ranch<br>dba The Rose of Newport Beach<br>dba The Victorian of Newport Beach<br>dba Sober Living IOP<br>dba The Landing at Newport Beach                                                                                                                                                                                           | California     |
| Solutions (Llangarron) Limited                                                                                                                                                                                                                                                                                                                                                           | United Kingdom |
| Solutions (Ross) Limited                                                                                                                                                                                                                                                                                                                                                                 | United Kingdom |
| Sonora Behavioral Health Hospital, LLC                                                                                                                                                                                                                                                                                                                                                   | Delaware       |
| Southern Indiana Treatment Center, LLC<br>dba Southern Indiana Treatment Center                                                                                                                                                                                                                                                                                                          | Indiana        |
| Southwestern Children's Health Services, Inc.<br>dba Parc Place<br>dba Parc Place Behavioral<br>dba Oasis Behavioral Health Hospital                                                                                                                                                                                                                                                     | Arizona        |
| Southwood Psychiatric Hospital, LLC<br>dba Southwood Psychiatric Hospital                                                                                                                                                                                                                                                                                                                | Pennsylvania   |
| Specialised Courses Offering Purposeful Education Limited                                                                                                                                                                                                                                                                                                                                | United Kingdom |
| Speciality Care (Addison Court) Limited                                                                                                                                                                                                                                                                                                                                                  | United Kingdom |
| Speciality Care (Care Homes) Limited                                                                                                                                                                                                                                                                                                                                                     | United Kingdom |
| Speciality Care (EMI) Limited                                                                                                                                                                                                                                                                                                                                                            | United Kingdom |
| Speciality Care (Learning Disabilities) Limited                                                                                                                                                                                                                                                                                                                                          | United Kingdom |
| Speciality Care (Medicare) Limited                                                                                                                                                                                                                                                                                                                                                       | United Kingdom |
| Speciality Care (Rehab) Limited                                                                                                                                                                                                                                                                                                                                                          | United Kingdom |
| Speciality Care (Rest Care) Limited                                                                                                                                                                                                                                                                                                                                                      | United Kingdom |
| Speciality Care (Rest Homes) Limited                                                                                                                                                                                                                                                                                                                                                     | United Kingdom |
| Speciality Care (UK Lease Homes) Limited                                                                                                                                                                                                                                                                                                                                                 | United Kingdom |
| Speciality Care Limited                                                                                                                                                                                                                                                                                                                                                                  | United Kingdom |
| Speciality Healthcare Limited                                                                                                                                                                                                                                                                                                                                                            | United Kingdom |
| Stoke 3 Limited                                                                                                                                                                                                                                                                                                                                                                          | United Kingdom |
| Stoke Trustee LLP                                                                                                                                                                                                                                                                                                                                                                        | United Kingdom |
| Stoke Trustee (No 2) LLP                                                                                                                                                                                                                                                                                                                                                                 | United Kingdom |
| Strathmore Care Services Limited                                                                                                                                                                                                                                                                                                                                                         | United Kingdom |
| Strathmore College Limited                                                                                                                                                                                                                                                                                                                                                               | United Kingdom |
| Structure House, LLC<br>dba Wellspring at Structure House                                                                                                                                                                                                                                                                                                                                | Delaware       |
| Sturt House Clinic Limited                                                                                                                                                                                                                                                                                                                                                               | United Kingdom |
| Success Acquisition, LLC                                                                                                                                                                                                                                                                                                                                                                 | Indiana        |
| SUWS of the Carolinas, Inc.<br>dba SUWS Seasons                                                                                                                                                                                                                                                                                                                                          | Delaware       |
| Swift River Academy, L.L.C.                                                                                                                                                                                                                                                                                                                                                              | Delaware       |
| Ten Broeck Tampa, LLC                                                                                                                                                                                                                                                                                                                                                                    | Florida        |
| Ten Lakes Center, LLC                                                                                                                                                                                                                                                                                                                                                                    | Ohio           |
| Texarkana Behavioral Associates, L.C.<br>dba Riverview Behavioral Health Outpatient Program<br>dba Vantage Point Behavioral Health<br>dba Vantage Point of Northwest Arkansas<br>dba Vantage Point of the Ozarks<br>dba Valley Behavioral Health System<br>dba Valley Behavioral Health Outpatient Program<br>dba Valley Behavioral Health System Outpatient Program<br>dba Vista Health | Texas          |

| Name of Subsidiary<br>(including dba name, if applicable)                                                                                                                                                                                                                                                                                                                                           | Jurisdiction / Country of Incorporation or Organization                                      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| The Camp Recovery Center, LLC<br>dba Azure Acres<br>dba Starlite Recovery Center<br>dba The Camp Recovery Center<br>dba Camp IOP-Campbell<br>dba Camp IOP-Scotts Valley<br>dba Camp IOP-Monterey<br>dba Azure Acres IOP                                                                                                                                                                             | California                                                                                   |
| The Manor Clinic Limited<br>The Pavilion at HealthPark, LLC<br>dba Park Royal Hospital<br>dba Park Royal Psychiatric Hospital at Healthpark<br>dba Park Royal Outpatient Clinic                                                                                                                                                                                                                     | England and Wales<br>Florida                                                                 |
| The Refuge - Transitions, LLC<br>The Refuge, A Healing Place, LLC<br>Thetford Trustee LLP<br>Ticehurst House Private Clinic Limited<br>TK Behavioral Holding Company, LLC<br>TK Behavioral, LLC<br>Transcultural Health Development, Inc.<br>dba Coastal Recovery Center                                                                                                                            | Florida<br>Florida<br>United Kingdom<br>United Kingdom<br>Delaware<br>Delaware<br>California |
| Treatment Associates, Inc.<br>dba Sacramento Treatment Center                                                                                                                                                                                                                                                                                                                                       | California                                                                                   |
| Treehome Limited<br>Valley Behavioral Health System, LLC<br>dba Valley Behavioral Health<br>dba Valley Behavioral Health System                                                                                                                                                                                                                                                                     | United Kingdom<br>Delaware                                                                   |
| Velocity Healthcare Limited<br>Vermilion Hospital, LLC<br>dba Vermilion Behavioral Health Systems<br>dba Acadia Vermilion Hospital<br>dba Optima Specialty Hospital                                                                                                                                                                                                                                 | United Kingdom<br>Delaware                                                                   |
| Village Behavioral Health, LLC<br>dba The Village                                                                                                                                                                                                                                                                                                                                                   | Delaware                                                                                     |
| Virginia Treatment Center, LLC<br>dba Roanoke Treatment Center<br>dba Lynchburg Treatment Center                                                                                                                                                                                                                                                                                                    | Virginia                                                                                     |
| Vista Behavioral Holding Company, LLC<br>Vista Behavioral Hospital, LLC<br>Vita Nova, LLC                                                                                                                                                                                                                                                                                                           | Delaware<br>Delaware<br>Rhode Island                                                         |
| Volunteer Treatment Center, LLC<br>dba Volunteer Treatment Center                                                                                                                                                                                                                                                                                                                                   | Tennessee                                                                                    |
| WCHS, Inc.<br>dba Colton Clinical Services<br>dba Desert Treatment Clinic<br>dba Canyon Park Treatment Solutions<br>dba Recovery Treatment Center<br>dba Riverside Treatment Center<br>dba The Renton Clinic<br>dba Tacoma Treatment Solutions<br>dba Temecula Valley Treatment Center<br>dba Vancouver Treatment Solutions<br>dba Spokane Treatment Solutions<br>dba Anchorage Treatment Solutions | California                                                                                   |
| Webster Wellness Professionals, LLC                                                                                                                                                                                                                                                                                                                                                                 | Missouri                                                                                     |
| Wednesfield Trustee LLP                                                                                                                                                                                                                                                                                                                                                                             | United Kingdom                                                                               |
| Wednesfield Trustee (No 2) LLP                                                                                                                                                                                                                                                                                                                                                                      | United Kingdom                                                                               |

**SUPPLEMENTAL #1****June 27, 2016****9:26 am****Name of Subsidiary***(including dba name, if applicable)***Jurisdiction / Country of Incorporation or Organization**

|                                                        |                   |
|--------------------------------------------------------|-------------------|
| Wednesfield 3 Limited                                  | United Kingdom    |
| Wellplace, Inc.                                        | Massachusetts     |
| Wheeling Treatment Center, LLC                         | West Virginia     |
| dba Wheeling Treatment Center                          |                   |
| White Deer Realty, LLC                                 | Pennsylvania      |
| White Deer Run, LLC                                    | Pennsylvania      |
| dba Cove PREP                                          |                   |
| dba White Deer Run of Lancaster                        |                   |
| dba New Perspectives at White Deer Run                 |                   |
| dba White Deer Run at Blue Mountain                    |                   |
| dba New Directions at Cove Forge                       |                   |
| dba Cove Forge Renewal Center                          |                   |
| dba White Deer Run of Allentown                        |                   |
| dba White Deer Run of Allenwood                        |                   |
| dba White Deer Run of Harrisburg                       |                   |
| dba White Deer Run of Lewisburg                        |                   |
| dba White Deer Run of Lancaster                        |                   |
| dba White Deer Run of New Castle                       |                   |
| dba White Deer Run of Williamsport                     |                   |
| dba White Deer Run of York                             |                   |
| dba Cove Forge Behavioral System at Erie               |                   |
| dba Cove Forge Behavioral System at Pittsburg          |                   |
| dba Cove Forge Behavioral System at Williamsburg       |                   |
| dba Lehigh County Center for Recovery                  |                   |
| Whitewell UK Holding Company 1 Limited                 | England and Wales |
| Whitewell UK Investments 1 Limited                     | England and Wales |
| Wichita Treatment Center Inc.                          | Kansas            |
| Wilderness Therapy Programs, Inc.                      | Oregon            |
| dba SageWalk, the Wilderness School                    |                   |
| Williamson Treatment Center, LLC                       | West Virginia     |
| Wilmington Treatment Center, LLC                       | Virginia          |
| Yorkshire Parkcare Company Limited                     | United Kingdom    |
| Youth And Family Centered Services of New Mexico, Inc. | New Mexico        |
| dba Desert Hills                                       |                   |
| Youth Care of Utah, Inc.                               | Delaware          |
| dba Pine Ridge Academy                                 |                   |
| dba Youth Care                                         |                   |
| ZR Builders (Derby) Limited                            | United Kingdom    |

**June 27, 2016****9:26 am****Exhibit 23****Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Form S-3 (No. 333-196611) pertaining to the Acadia Healthcare Company, Inc. registration of shares of common stock;
- (2) Form S-8 (No. 333-177990) pertaining to the Acadia Healthcare Company, Inc. Incentive Compensation Plan;
- (3) Form S-8 (No. 333-190232) pertaining to the Acadia Healthcare Company, Inc. Incentive Compensation Plan; and
- (4) Post-Effective Amendment No. 1 to Form S-4 on Form S-8 (No. 333-175523) pertaining to the PHC, Inc. 2004 Non-Employee Director Stock Option Plan, the PHC, Inc. 2003 Stock Purchase and Option Plan, the PHC, Inc. 1995 Employee Stock Purchase Plan and the PHC, Inc. 1993 Stock Purchase and Option Plan

of our reports dated February 25, 2016, with respect to the consolidated financial statements of Acadia Healthcare Company, Inc. and the effectiveness of internal control over financial reporting of Acadia Healthcare Company, Inc., included in this Annual Report (Form 10-K) of Acadia Healthcare Company, Inc. for the year ended December 31, 2015.

/s/ Ernst & Young, LLP

Nashville, Tennessee  
February 25, 2016

**June 27, 2016****9:26 am****EXHIBIT 31.1****CERTIFICATION**

I, Joey A. Jacobs, certify that:

1. I have reviewed this annual report on Form 10-K of Acadia Healthcare Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2016

/s/ Joey A. Jacobs

Joey A. Jacobs

Chairman of the Board and Chief Executive Officer

**June 27, 2016****9:26 am****EXHIBIT 31.2****CERTIFICATION**

I, David M. Duckworth, certify that:

1. I have reviewed this annual report on Form 10-K of Acadia Healthcare Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(c) and 15d-15(c)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2016

/s/ David M. Duckworth

David M. Duckworth  
Chief Financial Officer

**June 27, 2016**

**9:26 am**

EXHIBIT 32.1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Acadia Healthcare Company, Inc. (the "Company") on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joey A. Jacobs, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 25, 2016

/s/ Joey A. Jacobs

Joey A. Jacobs

Chairman of the Board and Chief Executive Officer

**June 27, 2016****9:26 am****EXHIBIT 32.2**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Acadia Healthcare Company, Inc. (the "Company") on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Duckworth, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 25, 2016

/s/ David M. Duckworth

David M. Duckworth  
Chief Financial Officer



**June 27, 2016****9:26 am**Table of Contents

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2016

or

- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35331

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**ACADIA HEALTHCARE COMPANY, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**45-2492228**  
(I.R.S. Employer  
Identification No.)

**6100 Tower Circle, Suite 1000  
Franklin, Tennessee 37067**  
(Address, including zip code, of registrant's principal executive offices)

**(615) 861-6000**  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

**June 27, 2016****9:26 am**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒Accelerated filer ☐Non-accelerated filer ☐ (Do not check if a smaller reporting company)Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 29, 2016, there were 87,427,576 shares of the registrant's common stock outstanding.

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**ACADIA HEALTHCARE COMPANY, INC.  
QUARTERLY REPORT ON FORM 10-Q  
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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

**Acadia Healthcare Company, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

|                                                                                                                                                                                                                                               | March 31,<br>2016                                     | December 31,<br>2015 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|----------------------|
|                                                                                                                                                                                                                                               | (In thousands, except share and per<br>share amounts) |                      |
| <b>ASSETS</b>                                                                                                                                                                                                                                 |                                                       |                      |
| Current assets:                                                                                                                                                                                                                               |                                                       |                      |
| Cash and cash equivalents                                                                                                                                                                                                                     | \$ 36,582                                             | \$ 11,215            |
| Accounts receivable, net of allowance for doubtful accounts of \$32,565 and \$29,332, respectively                                                                                                                                            | 276,880                                               | 216,626              |
| Other current assets                                                                                                                                                                                                                          | 79,803                                                | 66,895               |
| Total current assets                                                                                                                                                                                                                          | 393,265                                               | 294,736              |
| Property and equipment, net                                                                                                                                                                                                                   | 3,337,765                                             | 1,709,053            |
| Goodwill                                                                                                                                                                                                                                      | 2,771,365                                             | 2,128,215            |
| Intangible assets, net                                                                                                                                                                                                                        | 102,593                                               | 59,575               |
| Deferred tax assets – noncurrent                                                                                                                                                                                                              | 41,753                                                | 49,114               |
| Other assets                                                                                                                                                                                                                                  | 49,618                                                | 38,515               |
| Total assets                                                                                                                                                                                                                                  | \$ 6,696,359                                          | \$ 4,279,208         |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                                                                                 |                                                       |                      |
| Current liabilities:                                                                                                                                                                                                                          |                                                       |                      |
| Current portion of long-term debt                                                                                                                                                                                                             | \$ 69,223                                             | \$ 45,360            |
| Accounts payable                                                                                                                                                                                                                              | 118,210                                               | 91,341               |
| Accrued salaries and benefits                                                                                                                                                                                                                 | 112,714                                               | 80,696               |
| Other accrued liabilities                                                                                                                                                                                                                     | 108,663                                               | 72,806               |
| Total current liabilities                                                                                                                                                                                                                     | 408,810                                               | 290,203              |
| Long-term debt                                                                                                                                                                                                                                | 3,497,569                                             | 2,195,384            |
| Deferred tax liabilities – noncurrent                                                                                                                                                                                                         | 94,882                                                | 23,936               |
| Other liabilities                                                                                                                                                                                                                             | 124,492                                               | 78,602               |
| Total liabilities                                                                                                                                                                                                                             | 4,125,753                                             | 2,588,125            |
| Redeemable noncontrolling interests                                                                                                                                                                                                           | 7,736                                                 | 8,055                |
| Equity:                                                                                                                                                                                                                                       |                                                       |                      |
| Preferred stock, \$0.01 par value; 10,000,000 shares authorized, no shares issued                                                                                                                                                             | —                                                     | —                    |
| Common stock, \$0.01 par value; 180,000,000 and 90,000,000 shares authorized at March 31, 2016 and December 31, 2015, respectively; 86,539,997 and 70,745,746 issued and outstanding as of March 31, 2016 and December 31, 2015, respectively | 865                                                   | 707                  |
| Additional paid-in capital                                                                                                                                                                                                                    | 2,475,383                                             | 1,572,972            |
| Accumulated other comprehensive loss                                                                                                                                                                                                          | (153,062)                                             | (104,647)            |
| Retained earnings                                                                                                                                                                                                                             | 239,684                                               | 213,996              |
| Total equity                                                                                                                                                                                                                                  | 2,562,870                                             | 1,683,028            |
| Total liabilities and equity                                                                                                                                                                                                                  | \$ 6,696,359                                          | \$ 4,279,208         |

See accompanying notes.

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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidated Statements of Income**  
**(Unaudited)**

|                                                                                                                 | Three Months Ended<br>March 31,          |            |
|-----------------------------------------------------------------------------------------------------------------|------------------------------------------|------------|
|                                                                                                                 | 2016                                     | 2015       |
|                                                                                                                 | (In thousands, except per share amounts) |            |
| Revenue before provision for doubtful accounts                                                                  | \$ 627,183                               | \$ 374,158 |
| Provision for doubtful accounts                                                                                 | (10,370)                                 | (8,375)    |
| Revenue                                                                                                         | 616,813                                  | 365,783    |
| Salaries, wages and benefits (including equity-based compensation expense of \$6,956 and \$3,894, respectively) | 341,028                                  | 205,871    |
| Professional fees                                                                                               | 39,991                                   | 22,427     |
| Supplies                                                                                                        | 26,685                                   | 16,254     |
| Rents and leases                                                                                                | 14,806                                   | 5,886      |
| Other operating expenses                                                                                        | 70,247                                   | 40,527     |
| Depreciation and amortization                                                                                   | 27,975                                   | 13,104     |
| Interest expense, net                                                                                           | 37,714                                   | 22,146     |
| Gain on foreign currency derivatives                                                                            | (410)                                    | (53)       |
| Transaction-related expenses                                                                                    | 26,298                                   | 18,416     |
| Total expenses                                                                                                  | 584,334                                  | 344,578    |
| Income from continuing operations before income taxes                                                           | 32,479                                   | 21,205     |
| Provision for income taxes                                                                                      | 7,110                                    | 6,613      |
| Income from continuing operations                                                                               | 25,369                                   | 14,592     |
| Income from discontinued operations, net of income taxes                                                        | —                                        | 2          |
| Net income                                                                                                      | 25,369                                   | 14,594     |
| Net loss attributable to noncontrolling interests                                                               | 319                                      | —          |
| Net income attributable to Acadia Healthcare Company, Inc.                                                      | \$ 25,688                                | \$ 14,594  |
| Basic earnings attributable to Acadia Healthcare Company, Inc. stockholders:                                    |                                          |            |
| Income from continuing operations                                                                               | \$ 0.31                                  | \$ 0.23    |
| Income from discontinued operations                                                                             | —                                        | —          |
| Net income                                                                                                      | \$ 0.31                                  | \$ 0.23    |
| Diluted earnings attributable to Acadia Healthcare Company, Inc. stockholders:                                  |                                          |            |
| Income from continuing operations                                                                               | \$ 0.31                                  | \$ 0.23    |
| Income from discontinued operations                                                                             | —                                        | —          |
| Net income                                                                                                      | \$ 0.31                                  | \$ 0.23    |
| Weighted-average shares outstanding:                                                                            |                                          |            |
| Basic                                                                                                           | 82,943                                   | 62,530     |
| Diluted                                                                                                         | 83,420                                   | 62,894     |

See accompanying notes.

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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidated Statements of Comprehensive Loss**  
**(Unaudited)**

|                                                                           | <b>Three Months Ended</b> |                           |
|---------------------------------------------------------------------------|---------------------------|---------------------------|
|                                                                           | <b>March 31,</b>          |                           |
|                                                                           | <b>2016</b>               | <b>2015</b>               |
|                                                                           | <b>(In thousands)</b>     |                           |
| <b>Net income</b>                                                         | <b>\$ 25,369</b>          | <b>\$ 14,594</b>          |
| <b>Other comprehensive loss:</b>                                          |                           |                           |
| <b>Foreign currency translation loss</b>                                  | <b>(48,415)</b>           | <b>(29,389)</b>           |
| <b>Other comprehensive loss</b>                                           | <b>(48,415)</b>           | <b>(29,389)</b>           |
| <b>Comprehensive loss</b>                                                 | <b>(23,046)</b>           | <b>(14,795)</b>           |
| <b>Comprehensive loss attributable to noncontrolling interests</b>        | <b>319</b>                | <b>—</b>                  |
| <b>Comprehensive loss attributable to Acadia Healthcare Company, Inc.</b> | <b><u>\$ (22,727)</u></b> | <b><u>\$ (14,795)</u></b> |

See accompanying notes.

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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidated Statement of Equity**  
**(Unaudited)**  
**(In thousands)**

|                                                            | <u>Common Stock</u> |               | <u>Additional</u>  | <u>Accumulated</u>   | <u>Retained</u>  | <u>Total</u>       |
|------------------------------------------------------------|---------------------|---------------|--------------------|----------------------|------------------|--------------------|
|                                                            | <u>Shares</u>       | <u>Amount</u> | <u>Paid-in</u>     | <u>Other</u>         | <u>Earnings</u>  |                    |
|                                                            |                     |               | <u>Capital</u>     | <u>Comprehensive</u> |                  |                    |
|                                                            |                     |               |                    | <u>Loss</u>          |                  |                    |
| Balance at December 31, 2015                               | 70,746              | \$ 707        | \$1,572,972        | \$ (104,647)         | \$213,996        | \$1,683,028        |
| Common stock issued under stock incentive plans            | 260                 | 3             | 106                | —                    | —                | 109                |
| Common stock withheld for minimum statutory taxes          | —                   | —             | (6,787)            | —                    | —                | (6,787)            |
| Equity-based compensation expense                          | —                   | —             | 6,956              | —                    | —                | 6,956              |
| Excess tax benefit from equity awards                      | —                   | —             | —                  | —                    | —                | —                  |
| Issuance of common stock, net                              | 15,534              | 155           | 901,824            | —                    | —                | 901,979            |
| Other comprehensive loss                                   | —                   | —             | —                  | (48,415)             | —                | (48,415)           |
| Other                                                      | —                   | —             | 312                | —                    | —                | 312                |
| Net income attributable to Acadia Healthcare Company, Inc. | —                   | —             | —                  | —                    | 25,688           | 25,688             |
| Balance at March 31, 2016                                  | <u>86,540</u>       | <u>\$ 865</u> | <u>\$2,475,383</u> | <u>\$ (153,062)</u>  | <u>\$239,684</u> | <u>\$2,562,870</u> |

See accompanying notes.



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Acadia Healthcare Company, Inc.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

|                                                                                                     | Three Months Ended<br>March 31, |           |
|-----------------------------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                                                     | 2016                            | 2015      |
|                                                                                                     | (in thousands)                  |           |
| <b>Operating activities:</b>                                                                        |                                 |           |
| Net income                                                                                          | \$ 25,369                       | \$ 14,594 |
| <b>Adjustments to reconcile net income to net cash provided by continuing operating activities:</b> |                                 |           |
| Depreciation and amortization                                                                       | 27,975                          | 13,104    |
| Amortization of debt issuance costs                                                                 | 2,147                           | 1,468     |
| Equity-based compensation expense                                                                   | 6,956                           | 3,894     |
| Deferred income tax expense                                                                         | 9,085                           | 19,224    |
| Income from discontinued operations, net of taxes                                                   | —                               | (2)       |
| Gain on foreign currency derivatives                                                                | (410)                           | (53)      |
| Other                                                                                               | 882                             | 378       |
| <b>Change in operating assets and liabilities, net of effect of acquisitions:</b>                   |                                 |           |
| Accounts receivable, net                                                                            | (3,749)                         | (6,957)   |
| Other current assets                                                                                | (8,075)                         | (23,758)  |
| Other assets                                                                                        | (2,402)                         | (636)     |
| Accounts payable and other accrued liabilities                                                      | 7,498                           | 1,274     |
| Accrued salaries and benefits                                                                       | (6,347)                         | (5,022)   |
| Other liabilities                                                                                   | 354                             | 580       |
| Net cash provided by continuing operating activities                                                | 59,283                          | 18,088    |
| Net cash (used in) provided by discontinued operating activities                                    | (619)                           | 134       |
| Net cash provided by operating activities                                                           | 58,664                          | 18,222    |
| <b>Investing activities:</b>                                                                        |                                 |           |
| Cash paid for acquisitions, net of cash acquired                                                    | (580,096)                       | (49,618)  |
| Cash paid for capital expenditures                                                                  | (90,089)                        | (52,879)  |
| Cash paid for real estate acquisitions                                                              | (14,799)                        | (1,722)   |
| Settlement of foreign currency derivatives                                                          | 745                             | —         |
| Other                                                                                               | (1,208)                         | (383)     |
| Net cash used in investing activities                                                               | (685,447)                       | (104,602) |
| <b>Financing activities:</b>                                                                        |                                 |           |
| Borrowings on long-term debt                                                                        | 1,480,000                       | 875,000   |
| Borrowings on revolving credit facility                                                             | 58,000                          | 93,000    |
| Principal payments revolving credit facility                                                        | (166,000)                       | —         |
| Principal payments on long-term debt                                                                | (13,669)                        | (7,938)   |
| Repayment of assumed debt                                                                           | (1,348,389)                     | (904,467) |
| Payment of debt issuance costs                                                                      | (34,167)                        | (22,191)  |
| Issuance of common stock, net                                                                       | 685,097                         | —         |
| Common stock withheld for minimum statutory taxes, net                                              | (6,679)                         | (5,110)   |
| Excess tax benefit from equity awards                                                               | —                               | 4,310     |
| Other                                                                                               | (224)                           | —         |
| Net cash provided by financing activities                                                           | 653,969                         | 32,604    |
| Effect of exchange rate changes on cash                                                             | (1,819)                         | (2,232)   |
| Net increase (decrease) in cash and cash equivalents                                                | 25,367                          | (56,008)  |
| Cash and cash equivalents at beginning of the period                                                | 11,215                          | 94,040    |
| Cash and cash equivalents at end of the period                                                      | \$ 36,582                       | \$ 38,032 |

(continued on next page)



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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidated Statements of Cash Flows (continued)**

|                                                         | Three Months Ended |                  |
|---------------------------------------------------------|--------------------|------------------|
|                                                         | March 31,          |                  |
|                                                         | 2016               | 2015             |
|                                                         | (In thousands)     |                  |
| <b>Effect of acquisitions:</b>                          |                    |                  |
| Assets acquired, excluding cash                         | \$ 2,372,358       | \$ 1,428,566     |
| Liabilities assumed                                     | (1,575,380)        | (998,738)        |
| Issuance of common stock in connection with acquisition | (216,882)          | (380,210)        |
| Cash paid for acquisitions, net of cash acquired        | <u>\$ 580,096</u>  | <u>\$ 49,618</u> |

See accompanying notes.

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**Acadia Healthcare Company, Inc.  
Notes to Condensed Consolidated Financial Statements  
March 31, 2016  
(Unaudited)**

**1. Description of Business and Basis of Presentation*****Description of Business***

Acadia Healthcare Company, Inc. (the "Company") develops and operates inpatient psychiatric facilities, residential treatment centers, group homes, substance abuse facilities and facilities providing outpatient behavioral healthcare services to serve the behavioral health and recovery needs of communities throughout the United States, the United Kingdom and Puerto Rico. At March 31, 2016, the Company operated 585 behavioral healthcare facilities with over 17,400 beds in 39 states, the United Kingdom and Puerto Rico.

***Basis of Presentation***

The business of the Company is conducted through limited liability companies, C-corporations and, for the U.K. facilities, their foreign counterparts. The Company's consolidated financial statements include the accounts of the Company and all subsidiaries controlled by the Company through its' direct or indirect ownership of majority interests and exclusive rights granted to the Company as the controlling member of an entity. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation of our financial position and results of operations have been included. The Company's fiscal year ends on December 31 and interim results are not necessarily indicative of results for a full year or any other interim period. The condensed consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements as of that date. The information contained in these condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto for the fiscal year ended December 31, 2015 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2016. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Certain reclassifications have been made to prior years to conform to the current year presentation.

**2. Earnings Per Share**

Basic and diluted earnings per share are calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 260, "Earnings Per Share," based on the weighted-average number of shares outstanding in each period and dilutive stock options, unvested shares and warrants, to the extent such securities have a dilutive effect on earnings per share.

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The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2016 and 2015 (in thousands, except per share amounts):

|                                                                                       | Three Months Ended<br>March 31, |                 |
|---------------------------------------------------------------------------------------|---------------------------------|-----------------|
|                                                                                       | 2016                            | 2015            |
| Numerator:                                                                            |                                 |                 |
| Basic and diluted earnings per share attributable to Acadia Healthcare Company, Inc.: |                                 |                 |
| Income from continuing operations                                                     | \$25,688                        | \$14,592        |
| Income from discontinued operations                                                   | —                               | 2               |
| Net income attributable to Acadia Healthcare Company, Inc.                            | <u>\$25,688</u>                 | <u>\$14,594</u> |
| Denominator:                                                                          |                                 |                 |
| Weighted average shares outstanding for basic earnings per share                      | 82,943                          | 62,530          |
| Effect of dilutive instruments                                                        | 477                             | 364             |
| Shares used in computing diluted earnings per common share                            | <u>83,420</u>                   | <u>62,894</u>   |
| Basic earnings per share:                                                             |                                 |                 |
| Income from continuing operations                                                     | \$ 0.31                         | \$ 0.23         |
| Income from discontinued operations                                                   | —                               | —               |
| Net income                                                                            | <u>\$ 0.31</u>                  | <u>\$ 0.23</u>  |
| Diluted earnings per share:                                                           |                                 |                 |
| Income from continuing operations                                                     | \$ 0.31                         | \$ 0.23         |
| Income from discontinued operations                                                   | —                               | —               |
| Net income                                                                            | <u>\$ 0.31</u>                  | <u>\$ 0.23</u>  |

Approximately 0.8 million and 0.9 million shares of common stock issuable upon exercise of outstanding stock option awards were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2016 and 2015, respectively, because their effect would have been anti-dilutive.

### 3. Acquisitions

#### Priory

On February 16, 2016, the Company completed the acquisition of Priory Group No. 1 Limited ("Priory") for a total purchase price of approximately \$2.2 billion, including total cash consideration of approximately \$1.9 billion and the issuance of 4,033,561 shares of its common stock. Priory is the leading independent provider of behavioral healthcare services in the United Kingdom. The Competition and Markets Authority ("CMA") in the United Kingdom currently is reviewing our acquisition of Priory. The Company cannot determine when the CMA will complete its review of the acquisition of Priory and, until such review is complete, the Company will not be allowed to integrate Priory's business. Further, the Company may be required by the CMA to divest part of Priory's or the Company's respective businesses. At February 16, 2016, Priory operated 324 facilities with approximately 7,100 beds.

#### 2015 U.S. Acquisitions

On December 1, 2015, the Company completed the acquisition of certain facilities from MMO Behavioral Health Systems ("MMO"), including two acute inpatient behavioral health facilities with a total of 80 beds located in Jennings and Covington, Louisiana, for cash consideration of approximately \$20.2 million.

On November 1, 2015, the Company completed the acquisitions of (i) Discovery House-Group Inc. ("Discovery House") for cash consideration of approximately \$118.5 million and (ii) Duffy's Napa Valley Rehab ("Duffy's") for cash consideration of approximately \$29.6 million. Discovery House operates 19 comprehensive treatment centers located in four states. Duffy's is a substance abuse facility with 61 beds located in Calistoga, California.

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On August 31, 2015, the Company completed the acquisition of a controlling interest in Southcoast Behavioral ("Southcoast"), an inpatient psychiatric facility located in Fairhaven, Massachusetts. The Company owns 75% of the equity interests in the facility. The value of the 25% noncontrolling interest approximates \$9.2 million. The Company considered an income approach and other valuation methodologies to value the noncontrolling interests. The Company consolidates the operations of the facility based on its 75% equity ownership and its management of the entity. The noncontrolling interests are reflected as redeemable noncontrolling interests on the accompanying condensed consolidated balance sheet based on a put right that could require the Company to purchase the noncontrolling interests upon the occurrence of a change in control.

On July 1, 2015, the Company completed the acquisition of the assets of Belmont Behavioral Health ("Belmont"), an inpatient psychiatric facility with 147 beds located in Philadelphia, Pennsylvania for cash consideration of approximately \$39.5 million which consists of \$35.0 million base purchase price and an estimated working capital settlement of \$4.5 million.

On March 1, 2015, the Company acquired the stock of Quality Addiction Management, Inc. ("QAM") for cash consideration of approximately \$54.8 million. QAM operates seven comprehensive treatment centers located in Wisconsin.

On February 11, 2015, the Company completed its acquisition of CRC Health Group, Inc. ("CRC") for total consideration of approximately \$1.3 billion. As consideration for the acquisition, the Company issued 5,975,326 shares of its common stock to certain holders of CRC common stock and repaid CRC's outstanding indebtedness of \$904.5 million. CRC is a leading provider of treatment services related to substance abuse and other addiction and behavioral disorders. At the acquisition date, CRC operated 35 inpatient facilities with over 2,400 beds and 81 comprehensive treatment centers located in 30 states.

***2015 U.K. Acquisitions***

On November 1, 2015, the Company completed the acquisition of Cleveland House, an inpatient psychiatric facility with 32 beds located in England, for cash consideration of approximately \$10.3 million.

On October 1, 2015, the Company completed the acquisition of Meadow View, an inpatient psychiatric facility with 28 beds located in England, for cash consideration of approximately \$6.8 million.

On September 1, 2015, the Company completed the acquisitions of (i) three facilities from The Danshell Group ("Danshell") for approximately \$59.8 million, (ii) two facilities from Health and Social Care Partnerships ("H&SCP") for approximately \$26.2 million and (iii) Manor Hall for approximately \$14.0 million. The inpatient psychiatric facilities acquired from Danshell have an aggregate of 73 beds and are located in England. The inpatient psychiatric facilities acquired from H&SCP have an aggregate of 50 beds and are located in England. Manor Hall has 26 beds and is located in England.

On July 1, 2015, the Company completed the acquisition of The Manor Clinic, a substance abuse facility with 15 beds located in England, for cash consideration of approximately \$5.9 million.

On June 1, 2015, the Company completed the acquisitions of (i) one facility from Choice Lifestyles ("Choice") for cash consideration of approximately \$25.9 million and (ii) 15 facilities from Care UK Limited ("Care UK") for approximately \$88.2 million. The inpatient psychiatric facility acquired from Choice has 42 beds and is located in England. The inpatient psychiatric facilities acquired from Care UK have an aggregate of 299 beds and are located in England.

On April 1, 2015, the Company completed the acquisitions of (i) two facilities from Choice for cash consideration of approximately \$37.5 million, (ii) Pastoral Care Group ("Pastoral") for approximately \$34.2 million and (iii) Mildmay Oaks f/k/a Vista Independent Hospital ("Mildmay Oaks") for cash consideration of approximately \$14.9 million. The two inpatient psychiatric facilities acquired from Choice have an aggregate of 48 beds and are located in England. Pastoral operates two inpatient psychiatric facilities with an aggregate of 65 beds located in Wales. Mildmay Oaks is an inpatient psychiatric facility with 67 beds located in England.

***Summary of Acquisitions***

The Company selectively seeks opportunities to expand and diversify its base of operations by acquiring additional facilities. Approximately \$282.7 million of the goodwill associated with domestic acquisitions completed in 2016 and 2015 is deductible for federal income tax purposes. The fair values assigned to certain assets and liabilities assumed by the Company have been estimated on a preliminary basis and are subject to change as new facts and circumstances emerge that were present at the date of acquisition. Specifically, the Company is further assessing the valuation of certain real property and intangible assets and certain tax matters as well as certain receivables and assumed liabilities of Priory, MMO, Discovery House, Duffy's, Cleveland House, Meadow View, Danshell, H&SCP, Manor Hall, The Manor Clinic, Belmont, Choice, Care UK, Pastoral and Mildmay Oaks.

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The preliminary fair values of assets acquired and liabilities assumed for Priory, at February 16, 2016, were as follows (in thousands):

|                                           | <b>Priory</b>     |
|-------------------------------------------|-------------------|
| Cash                                      | \$ 10,253         |
| Accounts receivable                       | 57,831            |
| Prepaid expenses and other current assets | 7,920             |
| Property and equipment                    | 1,603,307         |
| Goodwill                                  | 652,146           |
| Intangible assets                         | 43,394            |
| Other assets                              | 7,760             |
| <b>Total assets acquired</b>              | <b>2,382,611</b>  |
| Accounts payable                          | 24,203            |
| Accrued salaries and benefits             | 39,588            |
| Other accrued expenses                    | 46,806            |
| Deferred tax liabilities – noncurrent     | 71,233            |
| Debt                                      | 1,348,389         |
| Other liabilities                         | 45,161            |
| <b>Total liabilities assumed</b>          | <b>1,575,380</b>  |
| <b>Net assets acquired</b>                | <b>\$ 807,231</b> |

The preliminary fair values of assets acquired and liabilities assumed, at the corresponding acquisition dates, during the year ended December 31, 2015 in connection with the 2015 acquisitions were as follows (in thousands):

|                                            | <b>CRC</b>        | <b>Other</b>     | <b>Total</b>      |
|--------------------------------------------|-------------------|------------------|-------------------|
| Cash                                       | \$ 19,599         | \$ 5,417         | \$ 25,016         |
| Accounts receivable                        | 47,035            | 27,059           | 74,094            |
| Prepaid expenses and other current assets  | 26,945            | 2,738            | 29,683            |
| Property and equipment                     | 136,163           | 273,143          | 409,306           |
| Goodwill                                   | 1,043,601         | 315,010          | 1,358,611         |
| Intangible assets                          | 37,000            | 204              | 37,204            |
| Deferred tax assets-noncurrent             | 74,383            | —                | 74,383            |
| Other assets                               | 6,478             | 51               | 6,529             |
| <b>Total assets acquired</b>               | <b>1,391,204</b>  | <b>623,622</b>   | <b>2,014,826</b>  |
| Accounts payable                           | 4,741             | 4,564            | 9,305             |
| Accrued salaries and benefits              | 14,827            | 3,321            | 18,148            |
| Other accrued expenses                     | 38,873            | 5,291            | 44,164            |
| Deferred tax liabilities – noncurrent      | —                 | 13,541           | 13,541            |
| Debt                                       | 904,467           | —                | 904,467           |
| Other liabilities                          | 34,720            | 10               | 34,730            |
| <b>Total liabilities assumed</b>           | <b>997,628</b>    | <b>26,727</b>    | <b>1,024,355</b>  |
| <b>Redeemable noncontrolling interests</b> | <b>—</b>          | <b>9,132</b>     | <b>9,132</b>      |
| <b>Net assets acquired</b>                 | <b>\$ 393,576</b> | <b>\$587,763</b> | <b>\$ 981,339</b> |

**Other**

The qualitative factors comprising the goodwill acquired in the CRC, QAM, Choice, Pastoral, Mildmay Oaks, Care UK, The Manor Clinic, Belmont, Southcoast, Danshell, H&SCP, Manor Hall, Meadow View, Cleveland House, Duffy's, Discovery House, MMO and Priory acquisitions (collectively the "2015 and 2016 Acquisitions") include efficiencies derived through synergies expected by the elimination of certain redundant corporate functions and expenses, the ability to leverage call center referrals to a broader

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provider base, coordination of services provided across the combined network of facilities, achievement of operating efficiencies by benchmarking performance, and applying best practices throughout the combined companies.

Transaction-related expenses comprised the following costs for the three months ended March 31, 2016 and 2015 (in thousands):

|                                          | Three Months Ended<br>March 31, |                 |
|------------------------------------------|---------------------------------|-----------------|
|                                          | 2016                            | 2015            |
| Advisory and financing commitment fees   | \$14,850                        | \$10,337        |
| Legal, accounting and other costs        | 11,448                          | 3,819           |
| Severance and contract termination costs | —                               | 4,260           |
|                                          | <u>\$26,298</u>                 | <u>\$18,416</u> |

**Pro Forma Information**

The condensed consolidated statements of income for the three months ended March 31, 2016 include revenue of \$294.6 million and income from continuing operations before income taxes of \$47.6 million related to the 2015 and 2016 Acquisitions. The condensed consolidated statements of income for the three months ended March 31, 2015 include revenue of \$68.6 million and income from continuing operations before income taxes of \$15.0 million related to acquisitions completed in 2015.

The following table provides certain pro forma financial information for the Company as if the 2015 and 2016 Acquisitions occurred as of January 1, 2015 (in thousands):

|                                                        | Three Months Ended<br>March 31, |                  |
|--------------------------------------------------------|---------------------------------|------------------|
|                                                        | 2016                            | 2015             |
| Revenue                                                | <u>\$725,667</u>                | <u>\$685,480</u> |
| Income from continuing operations, before income taxes | <u>\$ 12,363</u>                | <u>\$ 14,779</u> |

**4. Other Intangible Assets**

Other identifiable intangible assets and related accumulated amortization consisted of the following as of March 31, 2016 and December 31, 2015 (in thousands):

|                                                       | Gross Carrying Amount |                      | Accumulated Amortization |                      |
|-------------------------------------------------------|-----------------------|----------------------|--------------------------|----------------------|
|                                                       | March 31,<br>2016     | December 31,<br>2015 | March 31,<br>2016        | December 31,<br>2015 |
| <b>Intangible assets subject to amortization:</b>     |                       |                      |                          |                      |
| Contract intangible assets                            | \$ 2,100              | \$ 2,100             | \$ (1,855)               | \$ (1,750)           |
| Non-compete agreements                                | <u>1,247</u>          | <u>1,247</u>         | <u>(1,247)</u>           | <u>(1,247)</u>       |
|                                                       | 3,347                 | 3,347                | (3,102)                  | (2,997)              |
| <b>Intangible assets not subject to amortization:</b> |                       |                      |                          |                      |
| Licenses and accreditations                           | 11,463                | 11,479               | —                        | —                    |
| Trade names                                           | 80,799                | 37,800               | —                        | —                    |
| Certificates of need                                  | <u>10,086</u>         | <u>9,946</u>         | <u>—</u>                 | <u>—</u>             |
|                                                       | <u>102,348</u>        | <u>59,225</u>        | <u>—</u>                 | <u>—</u>             |
| <b>Total</b>                                          | <u>\$105,695</u>      | <u>\$ 62,572</u>     | <u>\$ (3,102)</u>        | <u>\$ (2,997)</u>    |

In connection with the Priory acquisition, the Company acquired trade name intangible assets with a preliminary fair value of \$43.4 million.

Amortization expense related to definite-lived intangible assets was \$0.1 million for both the three months ended March 31, 2016 and 2015. Estimated amortization expense for the years ending December 31, 2016, 2017, 2018, 2019 and 2020 is \$0.4 million, \$0, \$0, \$0 and \$0, respectively. The Company's licenses and accreditations, trade names and certificate of need intangible assets have indefinite lives and are, therefore, not subject to amortization.



**June 27, 2016****9:26 am**Table of Contents**5. Property and Equipment**

Property and equipment consists of the following as of March 31, 2016 and December 31, 2015 (in thousands):

|                               | <u>March 31, 2016</u> | <u>December 31, 2015</u> |
|-------------------------------|-----------------------|--------------------------|
| Land                          | \$ 838,181            | \$ 214,138               |
| Building and improvements     | 2,118,535             | 1,277,800                |
| Equipment                     | 361,703               | 141,543                  |
| Construction in progress      | 169,964               | 195,042                  |
|                               | <u>3,488,383</u>      | <u>1,828,523</u>         |
| Less accumulated depreciation | (150,618)             | (119,470)                |
| Property and equipment, net   | <u>\$ 3,337,765</u>   | <u>\$ 1,709,053</u>      |

**6. Long-Term Debt**

Long-term debt consisted of the following (in thousands):

|                                                             | <u>March 31, 2016</u> | <u>December 31, 2015</u> |
|-------------------------------------------------------------|-----------------------|--------------------------|
| <b>Amended and Restated Senior Credit Facility:</b>         |                       |                          |
| Senior Secured Term A Loans                                 | \$ 625,719            | \$ 500,750               |
| Senior Secured Term B Loans                                 | 1,446,362             | 495,000                  |
| Senior Secured Revolving Line of Credit                     | 50,000                | 158,000                  |
| 6.125% Senior Notes due 2021                                | 150,000               | 150,000                  |
| 5.125% Senior Notes due 2022                                | 300,000               | 300,000                  |
| 5.625% Senior Notes due 2023                                | 650,000               | 650,000                  |
| 6.500% Senior Notes due 2024                                | 390,000               | —                        |
| 9.0% and 9.5% Revenue Bonds                                 | 22,410                | 22,410                   |
| Less: unamortized debt issuance costs, discount and premium | (67,699)              | (35,416)                 |
|                                                             | <u>3,566,792</u>      | <u>2,240,744</u>         |
| Less: current portion                                       | (69,223)              | (45,360)                 |
| Long-term debt                                              | <u>\$ 3,497,569</u>   | <u>\$ 2,195,384</u>      |

**Amended and Restated Senior Credit Facility**

The Company entered into a senior secured credit facility (the "Senior Secured Credit Facility") on April 1, 2011. On December 31, 2012, the Company entered into an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") which amended and restated the Senior Secured Credit Facility (the "Amended and Restated Senior Credit Facility"). The Company has amended the Amended and Restated Credit Agreement from time to time as described in the Company's prior filings with the Securities and Exchange Commission.

On February 6, 2015, the Company entered into a Seventh Amendment (the "Seventh Amendment") to the Amended and Restated Credit Agreement. The Seventh Amendment added Citibank, N.A. as an "L/C Issuer" under the Amended and Restated Credit Agreement in order to permit the rollover of CRC's existing letters of credit into the Amended and Restated Credit Agreement and increased both the Company's Letter of Credit Sublimit and Swing Line Sublimit to \$20.0 million.

On February 11, 2015, the Company entered into a First Incremental Facility Amendment (the "First Incremental Amendment") to the Amended and Restated Credit Agreement. The First Incremental Amendment activated a new \$500.0 million incremental Term Loan B facility (the "Existing TLB Facility") that was added to the Amended and Restated Senior Credit Facility, subject to limited conditionality provisions. Borrowings under the Existing TLB Facility were used to fund a portion of the purchase price for the acquisition of CRC.

On April 22, 2015, the Company entered into an Eighth Amendment (the "Eighth Amendment") to the Amended and Restated Credit Agreement. The Eighth Amendment changed the definition of "Change of Control" in part to remove a provision whose purpose was, when calculating whether a majority of incumbent directors have approved new directors, that any incumbent director that became a director as a result of a threatened or actual proxy contest was not counted in such calculation.

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On January 25, 2016, the Company entered into the Ninth Amendment (the "Ninth Amendment") to the Amended and Restated Credit Agreement. The Ninth Amendment modifies certain definitions and provides increased flexibility to the Company in terms of its financial covenants. The Company's baskets for permitted investments were also increased to provide increased flexibility for it to invest in non-wholly owned subsidiaries, joint ventures and foreign subsidiaries. The Company may now invest in non-wholly owned subsidiaries and joint ventures up to 10.0% of the Company and its subsidiaries' total assets in any four consecutive fiscal quarter period, and up to 12.5% of the Company and its subsidiaries' total assets during the term of the Amended and Restated Credit Agreement. The Company may also invest in foreign subsidiaries that are not loan parties up to 10% of the Company and its subsidiaries' total assets in any consecutive four fiscal quarter period, and up to 15% of the Company and its subsidiaries' total assets during the term of the Amended and Restated Credit Agreement. The foregoing permitted investments are subject to an aggregate cap of 25% of the Company and its subsidiaries' total assets in any fiscal year.

On February 16, 2016, the Company entered into a Second Incremental Facility Amendment (the "Second Incremental Amendment") to the Amended and Restated Credit Agreement. The Second Incremental Amendment activated a new \$955.0 million incremental Term Loan B facility (the "New TLB Facility") and added \$135.0 million to the Term Loan A facility (the "TLA Facility") to the Amended and Restated Senior Credit Facility, subject to limited conditionality provisions. Borrowings under the New TLB Facility were used to fund a portion of the purchase price for the acquisition of Priory and the fees and expenses for such acquisition and the related financing transactions. Borrowings under the TLA Facility were used to pay down the majority of our \$300.0 million revolving credit facility.

The Company had \$241.5 million of availability under the revolving line of credit as of March 31, 2016. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our TLA Facility of \$10.0 million for March 31, 2016, \$12.6 million for June 30, 2016 to December 31, 2016, \$16.8 million for March 31, 2017 to December 31, 2017, and \$20.9 million for March 31, 2018 to December 31, 2018, with the remaining principal balance of the TLA Facility due on the maturity date of February 13, 2019. The Company is required to repay the Existing TLB Facility in equal quarterly installments of \$1.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Existing TLB Facility due on February 11, 2022. The Company is required to repay the New TLB Facility in equal quarterly installments of approximately \$2.4 million on the last business day of each March, June, September and December, with the outstanding principal balance of the TLB Facility due on February 16, 2023.

Borrowings under the Amended and Restated Senior Credit Facility are guaranteed by each of the Company's wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of the assets of the Company and such subsidiaries. Borrowings with respect to the TLA Facility and the Company's revolving credit facility (collectively, "Pro Rata Facilities") under the Amended and Restated Credit Agreement bear interest at a rate tied to Acadia's Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$40.0 million of unrestricted and unencumbered cash to consolidated EBITDA, in each case as defined in the Amended and Restated Credit Agreement). The Applicable Rate (as defined in the Amended and Restated Credit Agreement) for the Pro Rata Facilities was 3.25% for Eurodollar Rate Loans (as defined in the Amended and Restated Credit Agreement) and 2.25% for Base Rate Loans (as defined in the Amended and Restated Credit Agreement) at March 31, 2016. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) (based upon the LIBOR Rate (as defined in the Amended and Restated Credit Agreement) prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As of March 31, 2016, the Pro Rata Facilities bore interest at a rate of LIBOR plus 3.25%. In addition, the Company is required to pay a commitment fee on undrawn amounts under the revolving line of credit.

The Amended and Restated Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative, negative and financial covenants, including a fixed charge coverage ratio, consolidated leverage ratio and senior secured leverage ratio. The Company may be required to pay all of its indebtedness immediately if it defaults on any of the numerous financial or other restrictive covenants contained in any of its material debt agreements. As of March 31, 2016, the Company was in compliance with such covenants.

**Senior Notes****6.125% Senior Notes due 2021**

On March 12, 2013, the Company issued \$150.0 million of 6.125% Senior Notes due 2021 (the "6.125% Senior Notes"). The 6.125% Senior Notes mature on March 15, 2021 and bear interest at a rate of 6.125% per annum, payable semi-annually in arrears on March 15 and September 15 of each year.



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On July 1, 2014, the Company issued \$300.0 million of 5.125% Senior Notes due 2022 (the "5.125% Senior Notes"). The 5.125% Senior Notes mature on July 1, 2022 and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears on January 1 and July 1 of each year.

**5.625% Senior Notes due 2023**

On February 11, 2015, the Company issued \$375.0 million of 5.625% Senior Notes due 2023 (the "5.625% Senior Notes"). The 5.625% Senior Notes mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year.

On September 21, 2015, the Company issued \$275.0 million of additional 5.625% Senior Notes. The additional notes form a single class of debt securities with the existing 5.625% Senior Notes. Giving effect to this issuance, the Company has outstanding an aggregate of \$650.0 million of 5.625% Senior Notes.

**6.500% Senior Notes due 2024**

On February 16, 2016, the Company issued \$390.0 million of 6.500% Senior Notes due 2024 (the "6.500% Senior Notes"). The 6.500% Senior Notes mature on March 1, 2024 and bear interest at a rate of 6.500% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016.

The indentures governing the 5.125% Senior Notes, 5.625% Senior Notes, 5.625% Senior Notes and 6.500% Senior Notes (together, the "Senior Notes") contain covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets; and (vii) create liens on assets.

The Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

The Company may redeem the Senior Notes at its option, in whole or part, at the dates and amounts set forth in the indentures.

**9.0% and 9.5% Revenue Bonds**

On November 11, 2012, in connection with the acquisition of Park Royal, the Company assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5% ("9.0% and 9.5% Revenue Bonds"), respectively. The 9.0% bonds in the amount of \$7.5 million have a maturity date of December 1, 2030 and require yearly principal payments beginning in 2013. The 9.5% bonds in the amount of \$15.5 million have a maturity date of December 1, 2040 and require yearly principal payments beginning in 2031. The principal payments establish a bond sinking fund to be held with the trustee and shall be sufficient to redeem the principal amounts of the 9.0% and 9.5% Revenue Bonds on their respective maturity dates. As of March 31, 2016 and December 31, 2015, \$2.3 million was recorded within other assets on the balance sheet related to the debt service reserve fund requirements. The yearly principal payments, which establish a bond sinking fund, will increase the debt service reserve fund requirements. The bond premium amount of \$2.6 million is amortized as a reduction of interest expense over the life of the revenue bonds using the effective interest method.

**7. Equity****Common Stock**

On March 3, 2016, the Company held a Special Meeting of Stockholders, where the Company's stockholders approved an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 90,000,000 to 180,000,000 (the "Amendment"). On March 3, 2016, the Company filed the Amendment with the Secretary of State of the State of Delaware.

**June 27, 2016****9:26 am****Table of Contents*****Equity Offerings***

On February 11, 2015, the Company completed its acquisition of CRC for total consideration of approximately \$1.3 billion. As consideration for the acquisition, the Company issued 5,975,326 shares of its common stock to certain holders of CRC common stock and repaid CRC's outstanding indebtedness.

On May 11, 2015, the Company completed the offering of 5,175,000 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that the Company granted to the underwriters as part of the offering) at a price of \$66.50 per share. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discount of \$12.0 million and additional offering-related costs of \$0.8 million, were \$331.3 million. The Company used the net offering proceeds to repay outstanding indebtedness and fund acquisitions.

On January 12, 2016, the Company completed the offering of 11,500,000 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that the Company granted to the underwriters as part of the offering) at a price of \$61.00 per share. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discount of \$15.8 million and additional offering-related costs of \$0.7 million, were \$685.0 million. The Company used the net offering proceeds to fund a portion of the purchase price for the acquisition of Priory.

On February 16, 2016, the Company completed its acquisition of Priory for a total purchase price of approximately \$2.2 billion, including total cash consideration of approximately \$1.9 billion and the issuance of 4,033,561 shares of common stock.

**8. Equity-Based Compensation*****Equity Incentive Plans***

The Company issues stock-based awards, including stock options, restricted stock and restricted stock units, to certain officers, employees and non-employee directors under the Acadia Healthcare Company, Inc. Incentive Compensation Plan (the "Equity Incentive Plan"). As of March 31, 2016, a maximum of 4,700,000 shares of the Company's common stock were authorized for issuance as stock options, restricted stock and restricted stock units or other share-based compensation under the Equity Incentive Plan, of which 1,336,703 were available for future grant. Stock options may be granted for terms of up to ten years. The Company recognizes expense on all share-based awards on a straight-line basis over the requisite service period of the entire award. Grants to employees generally vest in annual increments of 25% each year, commencing one year after the date of grant. The exercise prices of stock options are equal to the most recent closing price of the Company's common stock on the date of grant.

The Company recognized \$7.0 million and \$3.9 million in equity-based compensation expense for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, there was \$65.7 million of unrecognized compensation expense related to unvested options, restricted stock and restricted stock units, which is expected to be recognized over the remaining weighted average vesting period of 1.5 years. The Company recognized a deferred income tax benefit of \$2.8 million and \$1.6 million for the three months ended March 31, 2016 and 2015, respectively, related to equity-based compensation expense. The actual tax benefit realized from stock options exercised during the three months ended March 31, 2015 was \$4.3 million. No tax benefit was realized from stock options during the three months ended March 31, 2016.

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Stock option activity during 2015 and 2016 was as follows (aggregate intrinsic value in thousands):

|                                          | Number<br>of<br>Options | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (in years) | Aggregate<br>Intrinsic<br>Value |
|------------------------------------------|-------------------------|---------------------------------------|--------------------------------------------------------------------|---------------------------------|
| Options outstanding at January 1, 2015   | 737,422                 | \$ 32.19                              | 8.09                                                               | \$ 14,512                       |
| Options granted                          | 204,700                 | 63.07                                 | 9.21                                                               | 1,724                           |
| Options exercised                        | (214,079)               | 42.75                                 | N/A                                                                | 9,890                           |
| Options cancelled                        | (33,300)                | 46.53                                 | N/A                                                                | N/A                             |
| Options outstanding at December 31, 2015 | 694,743                 | 42.87                                 | 7.70                                                               | 20,717                          |
| Options granted                          | 294,350                 | 59.72                                 | 9.86                                                               | —                               |
| Options exercised                        | (7,075)                 | 32.00                                 | N/A                                                                | 278                             |
| Options cancelled                        | (16,775)                | 57.99                                 | N/A                                                                | N/A                             |
| Options outstanding at March 31, 2016    | 965,243                 | \$ 47.86                              | 8.20                                                               | \$ 11,884                       |
| Options exercisable at December 31, 2015 | 106,330                 | \$ 36.41                              | 5.83                                                               | \$ 4,968                        |
| Options exercisable at March 31, 2016    | 323,979                 | \$ 40.58                              | 6.76                                                               | \$ 8,527                        |

Restricted stock activity during 2015 and 2016 was as follows:

|                               | Number of<br>Shares | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|-------------------------------|---------------------|-------------------------------------------------|
| Unvested at January 1, 2015   | 722,028             | \$ 39.77                                        |
| Granted                       | 503,052             | 62.67                                           |
| Cancelled                     | (44,900)            | 49.55                                           |
| Vested                        | (235,618)           | 34.93                                           |
| Unvested at December 31, 2015 | 944,562             | \$ 52.74                                        |
| Granted                       | 188,587             | 59.72                                           |
| Cancelled                     | (32,050)            | 59.79                                           |
| Vested                        | (213,787)           | 47.18                                           |
| Unvested at March 31, 2016    | 887,312             | \$ 55.30                                        |

Restricted stock unit activity during 2015 and 2016 was as follows:

|                               | Number of<br>Units | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|-------------------------------|--------------------|-------------------------------------------------|
| Unvested at January 1, 2015   | 125,113            | \$ 38.73                                        |
| Granted                       | 217,994            | 61.77                                           |
| Cancelled                     | —                  | —                                               |
| Vested                        | (125,023)          | 32.38                                           |
| Unvested at December 31, 2015 | 218,084            | \$ 56.97                                        |
| Granted                       | 230,750            | 56.95                                           |
| Cancelled                     | —                  | —                                               |
| Vested                        | (175,235)          | 52.71                                           |
| Unvested at March 31, 2016    | 273,599            | \$ 59.68                                        |

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The grant-date fair value of the Company's stock options is estimated using the Black-Scholes option pricing model. The following table summarizes the grant-date fair value of options and the assumptions used to develop the fair value estimates for options granted during the three months ended March 31, 2016 and year ended December 31, 2015:

|                                                   | March 31, 2016 | December 31, 2015 |
|---------------------------------------------------|----------------|-------------------|
| Weighted average grant-date fair value of options | \$ 19.57       | \$ 21.78          |
| Risk-free interest rate                           | 1.4%           | 1.5%              |
| Expected volatility                               | 33%            | 35%               |
| Expected life (in years)                          | 5.5            | 5.5               |

The Company's estimate of expected volatility for stock options is based upon the volatility of guideline companies given the lack of sufficient historical trading experience of the Company's common stock. The risk-free interest rate is the approximate yield on United States Treasury Strips having a life equal to the expected option life on the date of grant. The expected life is an estimate of the number of years an option will be held before it is exercised.

**9. Income Taxes**

The provision for income taxes for continuing operations for the three months ended March 31, 2016 and 2015 reflects effective tax rates of 21.9% and 31.2%, respectively. The decrease in the tax rate for the three months ended March 31, 2016 was primarily attributable to the acquisition of Priory, which is located in a lower taxing jurisdiction and for which earnings are permanently reinvested.

**10. Derivatives**

The Company entered into foreign currency forward contracts during both the three months ended March 31, 2016 and 2015 in connection with acquisitions in the United Kingdom. The foreign currency forward contracts limited the economic risk of changes in the foreign exchange rate between US Dollars ("USD") and British Pounds ("GBP") associated with the payment of the purchase price in GBP. These foreign currency forward contracts did not meet the hedge accounting criteria under Accounting Standards Codification 815, *Derivatives and Hedging*. As such, gains associated with changes in fair value of \$0.4 million and \$0.1 million for the three months ended March 31, 2016 and 2015, respectively, have been recorded in the consolidated statements of income based on final settlements of these contracts.

**11. Fair Value Measurements**

The carrying amounts reported for cash and cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities approximate fair value because of the short-term maturity of these instruments.

The carrying amounts and fair values of the Company's Amended and Restated Senior Credit Facility, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 6.500% Senior Notes, 9.0% and 9.5% Revenue Bonds and contingent consideration liabilities as of March 31, 2016 and December 31, 2015 were as follows (in thousands):

|                                             | Carrying Amount |                   | Fair Value     |                   |
|---------------------------------------------|-----------------|-------------------|----------------|-------------------|
|                                             | March 31, 2016  | December 31, 2015 | March 31, 2016 | December 31, 2015 |
| Amended and Restated Senior Credit Facility | \$2,079,958     | \$ 1,135,861      | \$2,079,958    | \$ 1,135,861      |
| 6.125% Senior Notes due 2021                | \$ 147,202      | \$ 147,082        | \$ 152,354     | \$ 149,288        |
| 5.125% Senior Notes due 2022                | \$ 294,919      | \$ 294,749        | \$ 297,868     | \$ 275,590        |
| 5.625% Senior Notes due 2023                | \$ 639,672      | \$ 639,431        | \$ 653,767     | \$ 604,262        |
| 6.500% Senior Notes due 2024                | \$ 381,528      | \$ —              | \$ 396,789     | \$ —              |
| 9.0% and 9.5% Revenue Bonds                 | \$ 23,514       | \$ 23,621         | \$ 23,514      | \$ 23,621         |
| Contingent consideration liabilities        | \$ 667          | \$ 667            | \$ 667         | \$ 667            |

The Company's Amended and Restated Senior Credit Facility, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 6.500% Senior Notes and 9.0% and 9.5% Revenue Bonds were categorized as Level 2 in the GAAP fair value hierarchy. Fair values were based on trading activity among the Company's lenders and the average bid and ask price as determined using published rates.

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The fair value of the contingent consideration liabilities were categorized as Level 3 in the GAAP fair value hierarchy. The contingent consideration liabilities were valued using a probability-weighted discounted cash flow method. This analysis reflected the contractual terms of the purchase agreements and utilized assumptions with regard to future earnings, probabilities of achieving such future earnings and a discount rate.

**12. Commitments and Contingencies**

The Company is, from time to time, subject to various claims and legal actions that arise in the ordinary course of the Company's business, including claims for damages for personal injuries, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance. In the opinion of management, the Company is not currently a party to any proceeding that would individually or in the aggregate have a material adverse effect on the Company's business, financial condition or results of operations.

**13. Current Assets**

Other current assets consisted of the following (in thousands):

|                                                  | March 31,<br>2016 | December 31,<br>2015 |
|--------------------------------------------------|-------------------|----------------------|
| Prepaid expenses                                 | \$ 29,397         | \$ 21,817            |
| Other receivables                                | 22,877            | 17,518               |
| Insurance receivable – current portion           | 5,290             | 5,290                |
| Workers' compensation deposits – current portion | 7,500             | 7,500                |
| Income taxes receivable                          | 6,676             | 6,540                |
| Inventory                                        | 4,779             | 4,681                |
| Other                                            | 3,284             | 3,549                |
| Other current assets                             | <u>\$ 79,803</u>  | <u>\$ 66,895</u>     |

**14. Other Accrued Liabilities**

Other accrued liabilities consisted of the following (in thousands):

|                                       | March 31,<br>2016 | December 31,<br>2015 |
|---------------------------------------|-------------------|----------------------|
| Unearned income                       | \$ 24,608         | \$ 446               |
| Accrued interest                      | 15,868            | 26,132               |
| Insurance liability – current portion | 10,490            | 10,490               |
| Other current liabilities             | 8,797             | 7,499                |
| Income taxes payable                  | 4,039             | 7,367                |
| Accrued property taxes                | 2,829             | 2,951                |
| Other                                 | 42,032            | 17,921               |
| Other accrued liabilities             | <u>\$108,663</u>  | <u>\$ 72,806</u>     |

**15. Segment Information**

The Company operates in one line of business, which is operating acute inpatient psychiatric facilities, specialty treatment facilities, residential treatment centers and facilities providing outpatient behavioral healthcare services. As management reviews the operating results of its facilities in the United States (the "U.S. Facilities") and its facilities in the United Kingdom (the "U.K. Facilities") separately to assess performance and make decisions, the Company's operating segments include its U.S. Facilities and U.K. Facilities. At March 31, 2016, the U.S. Facilities included 205 behavioral healthcare facilities with approximately 8,000 beds in 39 states and Puerto Rico, and the U.K. Facilities included 380 behavioral healthcare facilities with approximately 9,400 beds in the United Kingdom.



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The following tables set forth the financial information by operating segment, including a reconciliation of Segment EBITDA to income from continuing operations before income taxes (in thousands):

|                            | Three Months Ended March 31, |                   |
|----------------------------|------------------------------|-------------------|
|                            | 2016                         | 2015              |
| <b>Revenue:</b>            |                              |                   |
| U.S. Facilities            | \$ 408,264                   | \$ 290,507        |
| U.K. Facilities            | 206,975                      | 73,315            |
| Corporate and Other        | 1,574                        | 1,961             |
|                            | <u>\$ 616,813</u>            | <u>\$ 365,783</u> |
| <b>Segment EBITDA (1):</b> |                              |                   |
| U.S. Facilities            | \$ 106,840                   | \$ 76,364         |
| U.K. Facilities            | 44,931                       | 18,811            |
| Corporate and Other        | (20,759)                     | (16,463)          |
|                            | <u>\$ 131,012</u>            | <u>\$ 78,712</u>  |

|                                                       | Three Months Ended March 31, |                  |
|-------------------------------------------------------|------------------------------|------------------|
|                                                       | 2016                         | 2015             |
| <b>Segment EBITDA (1)</b>                             | <u>\$ 131,012</u>            | <u>\$ 78,712</u> |
| Plus (less):                                          |                              |                  |
| Equity-based compensation expense                     | (6,956)                      | (3,894)          |
| Gain on foreign currency derivatives                  | 410                          | 53               |
| Transaction-related expenses                          | (26,298)                     | (18,416)         |
| Interest expense, net                                 | (37,714)                     | (22,146)         |
| Depreciation and amortization                         | (27,975)                     | (13,104)         |
| Income from continuing operations before income taxes | <u>\$ 32,479</u>             | <u>\$ 21,205</u> |

|                                   | U.S. Facilities     | U.K. Facilities   | Corporate and Other | Consolidated        |
|-----------------------------------|---------------------|-------------------|---------------------|---------------------|
| <b>Goodwill:</b>                  |                     |                   |                     |                     |
| Balance at January 1, 2016        | \$ 1,941,873        | \$ 186,342        | \$ —                | \$ 2,128,215        |
| Increase from 2016 acquisitions   | —                   | 652,146           | —                   | 652,146             |
| Foreign currency translation loss | —                   | (11,406)          | —                   | (11,406)            |
| Other                             | 2,371               | 39                | —                   | 2,410               |
| Balance at March 31, 2016         | <u>\$ 1,944,244</u> | <u>\$ 827,121</u> | <u>\$ —</u>         | <u>\$ 2,771,365</u> |

|                     | March 31, 2016      | December 31, 2015   |
|---------------------|---------------------|---------------------|
| <b>Assets (2):</b>  |                     |                     |
| U.S. Facilities     | \$ 3,138,727        | \$ 3,061,519        |
| U.K. Facilities     | 3,390,950           | 1,045,922           |
| Corporate and Other | 166,682             | 171,767             |
|                     | <u>\$ 6,696,359</u> | <u>\$ 4,279,208</u> |

- (1) Segment EBITDA is defined as income from continuing operations before provision for income taxes, equity-based compensation expense, gain on foreign currency derivatives, transaction-related expenses, interest expense and depreciation and amortization. The Company uses Segment EBITDA as an analytical indicator to measure the performance of the Company's segments and to develop strategic objectives and operating plans for those segments.

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Segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from Segment EBITDA are significant components in understanding and assessing financial performance. Because Segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, Segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

- (2) Assets include property and equipment for the U.S. Facilities of \$885.2 million, U.K. Facilities of \$2.4 billion and corporate and other of \$42.8 million at March 31, 2016. Assets include property and equipment for the U.S. Facilities of \$832.2 million, U.K. Facilities of \$824.4 million and corporate and other of \$52.4 million at December 31, 2015.

**16. Recently Issued Accounting Standards**

In March 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-09, *"Improvements to Employee Share-Based Payment Accounting"* ("ASU 2016-09"). ASU 2016-09 includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Additionally, ASU 2016-09 would permit both public and nonpublic organizations to adopt the new standard early. Management is evaluating the impact of ASU 2016-09 on the Company's consolidated financial statements.

In March 2016, FASB issued ASU 2016-02, *"Leases"* ("ASU 2016-02"). ASU 2016-02's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Additionally, ASU 2016-02 would permit both public and nonpublic organizations to adopt the new standard early. Management is evaluating the impact of ASU 2016-02 on the Company's consolidated financial statements.

**17. Subsequent Events**

On April 1, 2016, the Company completed the acquisition of Serenity Knolls, an inpatient psychiatric facility with 30 beds located in Forest Knolls, California, for cash consideration of approximately \$10.0 million.

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**18. Financial Information for the Company and Its Subsidiaries**

The Company conducts substantially all of its business through its subsidiaries. The 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes and 6.500% Senior Notes are jointly and severally guaranteed on an unsecured senior basis by all of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. Presented below is condensed consolidating financial information for the Company and its subsidiaries as of March 31, 2016 and December 31, 2015, and for the three months ended March 31, 2016 and 2015. The information segregates the parent company (Acadia Healthcare Company, Inc.), the combined wholly-owned subsidiary guarantors, the combined non-guarantor subsidiaries and eliminations.

**Acadia Healthcare Company, Inc.  
Condensed Consolidating Balance Sheets  
March 31, 2016  
(In thousands)**

|                                       | Parent      | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|---------------------------------------|-------------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| <b>Current assets:</b>                |             |                                      |                                |                              |                                  |
| Cash and cash equivalents             | \$ —        | \$ 17,069                            | \$ 19,513                      | \$ —                         | \$ 36,582                        |
| Accounts receivable, net              | —           | 200,870                              | 76,010                         | —                            | 276,880                          |
| Other current assets                  | —           | 65,826                               | 20,879                         | (6,902)                      | 79,803                           |
| Total current assets                  | —           | 283,765                              | 116,402                        | (6,902)                      | 393,265                          |
| Property and equipment, net           | —           | 848,951                              | 2,488,814                      | —                            | 3,337,765                        |
| Goodwill                              | —           | 1,837,710                            | 933,655                        | —                            | 2,771,365                        |
| Intangible assets, net                | —           | 57,059                               | 45,534                         | —                            | 102,593                          |
| Deferred tax assets – noncurrent      | 3,946       | 32,981                               | 4,826                          | —                            | 41,753                           |
| Investment in subsidiaries            | 5,266,912   | —                                    | —                              | (5,266,912)                  | —                                |
| Other assets                          | 849,968     | 36,606                               | 10,029                         | (846,985)                    | 49,618                           |
| Total assets                          | \$6,120,826 | \$3,097,072                          | \$3,599,260                    | \$ (6,120,799)               | \$6,696,359                      |
| <b>Current liabilities:</b>           |             |                                      |                                |                              |                                  |
| Current portion of long-term debt     | \$ 68,988   | \$ —                                 | \$ 235                         | \$ —                         | \$ 69,223                        |
| Accounts payable                      | —           | 75,861                               | 42,349                         | —                            | 118,210                          |
| Accrued salaries and benefits         | —           | 72,272                               | 40,442                         | —                            | 112,714                          |
| Other accrued liabilities             | 14,678      | —                                    | 100,887                        | (6,902)                      | 108,663                          |
| Total current liabilities             | 83,666      | 148,133                              | 183,913                        | (6,902)                      | 408,810                          |
| Long-term debt                        | 3,474,290   | —                                    | 870,264                        | (846,985)                    | 3,497,569                        |
| Deferred tax liabilities – noncurrent | —           | —                                    | 94,882                         | —                            | 94,882                           |
| Other liabilities                     | —           | 78,979                               | 45,513                         | —                            | 124,492                          |
| Total liabilities                     | 3,557,956   | 227,112                              | 1,194,572                      | (853,887)                    | 4,125,753                        |
| Redeemable noncontrolling interests   | —           | —                                    | 7,736                          | —                            | 7,736                            |
| Total equity                          | 2,562,870   | 2,869,960                            | 2,396,952                      | (5,266,912)                  | 2,562,870                        |
| Total liabilities and equity          | \$6,120,826 | \$3,097,072                          | \$3,599,260                    | \$ (6,120,799)               | \$6,696,359                      |



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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidating Balance Sheets**  
**December 31, 2015**  
**(In thousands)**

|                                       | Parent             | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|---------------------------------------|--------------------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| <b>Current assets:</b>                |                    |                                      |                                |                              |                                  |
| Cash and cash equivalents             | \$ —               | \$ 1,987                             | \$ 9,228                       | \$ —                         | \$ 11,215                        |
| Accounts receivable, net              | —                  | 187,546                              | 29,080                         | —                            | 216,626                          |
| Other current assets                  | —                  | 57,968                               | 8,927                          | —                            | 66,895                           |
| Total current assets                  | —                  | 247,501                              | 47,235                         | —                            | 294,736                          |
| Property and equipment, net           | —                  | 805,439                              | 903,614                        | —                            | 1,709,053                        |
| Goodwill                              | —                  | 1,835,339                            | 292,876                        | —                            | 2,128,215                        |
| Intangible assets, net                | —                  | 57,024                               | 2,551                          | —                            | 59,575                           |
| Deferred tax assets – noncurrent      | 3,946              | 40,587                               | 4,581                          | —                            | 49,114                           |
| Investment in subsidiaries            | 3,495,067          | —                                    | —                              | (3,495,067)                  | —                                |
| Other assets                          | 427,270            | 32,947                               | 2,322                          | (424,024)                    | 38,515                           |
| Total assets                          | <u>\$3,926,283</u> | <u>\$3,018,837</u>                   | <u>\$1,253,179</u>             | <u>\$(3,919,091)</u>         | <u>\$4,279,208</u>               |
| <b>Current liabilities:</b>           |                    |                                      |                                |                              |                                  |
| Current portion of long-term debt     | \$ 45,125          | \$ —                                 | \$ 235                         | \$ —                         | \$ 45,360                        |
| Accounts payable                      | —                  | 75,015                               | 16,326                         | —                            | 91,341                           |
| Accrued salaries and benefits         | —                  | 66,249                               | 14,447                         | —                            | 80,696                           |
| Other accrued liabilities             | 26,132             | 10,886                               | 35,788                         | —                            | 72,806                           |
| Total current liabilities             | 71,257             | 152,150                              | 66,796                         | —                            | 290,203                          |
| Long-term debt                        | 2,171,998          | —                                    | 447,410                        | (424,024)                    | 2,195,384                        |
| Deferred tax liabilities – noncurrent | —                  | —                                    | 23,936                         | —                            | 23,936                           |
| Other liabilities                     | —                  | 75,159                               | 3,443                          | —                            | 78,602                           |
| Total liabilities                     | 2,243,255          | 227,309                              | 541,585                        | (424,024)                    | 2,588,125                        |
| Redeemable noncontrolling interests   | —                  | —                                    | 8,055                          | —                            | 8,055                            |
| Total equity                          | 1,683,028          | 2,791,528                            | 703,539                        | (3,495,067)                  | 1,683,028                        |
| Total liabilities and equity          | <u>\$3,926,283</u> | <u>\$3,018,837</u>                   | <u>\$1,253,179</u>             | <u>\$(3,919,091)</u>         | <u>\$4,279,208</u>               |

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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidating Statement of Comprehensive Income (Loss)**  
**Three Months Ended March 31, 2016**  
(In thousands)

|                                                                   | Parent    | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|-------------------------------------------------------------------|-----------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| Revenue before provision for doubtful accounts                    | \$ —      | \$ 402,934                           | \$ 224,249                     | \$ —                         | \$ 627,183                       |
| Provision for doubtful accounts                                   | —         | (9,342)                              | (1,028)                        | —                            | (10,370)                         |
| Revenue                                                           | —         | 393,592                              | 223,221                        | —                            | 616,813                          |
| Salaries, wages and benefits                                      | 6,956     | 211,033                              | 123,039                        | —                            | 341,028                          |
| Professional fees                                                 | —         | 22,677                               | 17,314                         | —                            | 39,991                           |
| Supplies                                                          | —         | 18,462                               | 8,223                          | —                            | 26,685                           |
| Rents and leases                                                  | —         | 8,577                                | 6,229                          | —                            | 14,806                           |
| Other operating expenses                                          | —         | 48,849                               | 21,398                         | —                            | 70,247                           |
| Depreciation and amortization                                     | —         | 12,751                               | 15,224                         | —                            | 27,975                           |
| Interest expense, net                                             | 13,433    | 16,093                               | 8,188                          | —                            | 37,714                           |
| Gain on foreign currency derivatives                              | (410)     | —                                    | —                              | —                            | (410)                            |
| Transaction-related expenses                                      | —         | 21,435                               | 4,863                          | —                            | 26,298                           |
| Total expenses                                                    | 19,979    | 359,877                              | 204,478                        | —                            | 584,334                          |
| (Loss) income from continuing operations before income taxes      | (19,979)  | 33,715                               | 18,743                         | —                            | 32,479                           |
| Equity in earnings of subsidiaries                                | 40,869    | —                                    | —                              | (40,869)                     | —                                |
| (Benefit from) provision for income taxes                         | (4,479)   | 7,407                                | 4,182                          | —                            | 7,110                            |
| Income (loss) from continuing operations                          | 25,369    | 26,308                               | 14,561                         | (40,869)                     | 25,369                           |
| Income from discontinued operations, net of income taxes          | —         | —                                    | —                              | —                            | —                                |
| Net income (loss)                                                 | 25,369    | 26,308                               | 14,561                         | (40,869)                     | 25,369                           |
| Net loss attributable to noncontrolling interests                 | —         | —                                    | 319                            | —                            | 319                              |
| Net income (loss) attributable to Acadia Healthcare Company, Inc. | \$ 25,369 | \$ 26,308                            | \$ 14,880                      | \$ (40,869)                  | \$ 25,688                        |
| Other comprehensive loss:                                         |           |                                      |                                |                              |                                  |
| Foreign currency translation loss                                 | —         | —                                    | (48,415)                       | —                            | (48,415)                         |
| Other comprehensive loss                                          | —         | —                                    | (48,415)                       | —                            | (48,415)                         |
| Comprehensive income (loss)                                       | \$ 25,369 | \$ 26,308                            | \$ (33,535)                    | \$ (40,869)                  | \$ (22,727)                      |

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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidating Statement of Comprehensive Income (Loss)**  
**Three Months Ended March 31, 2015**  
(In thousands)

|                                                              | Parent    | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|--------------------------------------------------------------|-----------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| Revenue before provision for doubtful accounts               | \$ —      | \$ 287,765                           | \$ 86,393                      | \$ —                         | \$ 374,158                       |
| Provision for doubtful accounts                              | —         | (7,419)                              | (956)                          | —                            | (8,375)                          |
| Revenue                                                      | —         | 280,346                              | 85,437                         | —                            | 365,783                          |
| Salaries, wages and benefits                                 | 3,894     | 155,699                              | 46,278                         | —                            | 205,871                          |
| Professional fees                                            | —         | 16,485                               | 5,942                          | —                            | 22,427                           |
| Supplies                                                     | —         | 13,009                               | 3,245                          | —                            | 16,254                           |
| Rents and leases                                             | —         | 5,117                                | 769                            | —                            | 5,886                            |
| Other operating expenses                                     | —         | 25,115                               | 15,412                         | —                            | 40,527                           |
| Depreciation and amortization                                | —         | 8,711                                | 4,393                          | —                            | 13,104                           |
| Interest expense, net                                        | 12,948    | 5,721                                | 3,477                          | —                            | 22,146                           |
| Gain on foreign currency derivatives                         | (53)      | —                                    | —                              | —                            | (53)                             |
| Transaction-related expenses                                 | —         | 18,416                               | —                              | —                            | 18,416                           |
| Total expenses                                               | 16,789    | 248,273                              | 79,516                         | —                            | 344,578                          |
| (Loss) income from continuing operations before income taxes | (16,789)  | 32,073                               | 5,921                          | —                            | 21,205                           |
| Equity in earnings of subsidiaries                           | 25,987    | —                                    | —                              | (25,987)                     | —                                |
| (Benefit from) provision for income taxes                    | (5,396)   | 10,497                               | 1,512                          | —                            | 6,613                            |
| Income (loss) from continuing operations                     | 14,594    | 21,576                               | 4,409                          | (25,987)                     | 14,592                           |
| Income from discontinued operations, net of income taxes     | —         | 2                                    | —                              | —                            | 2                                |
| Net income (loss)                                            | \$ 14,594 | \$ 21,578                            | \$ 4,409                       | \$ (25,987)                  | \$ 14,594                        |
| Other comprehensive loss:                                    |           |                                      |                                |                              |                                  |
| Foreign currency translation loss                            | —         | —                                    | (29,389)                       | —                            | (29,389)                         |
| Other comprehensive loss                                     | —         | —                                    | (29,389)                       | —                            | (29,389)                         |
| Comprehensive income (loss)                                  | \$ 14,594 | \$ 21,578                            | \$ (24,980)                    | \$ (25,987)                  | \$ (14,795)                      |

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Acadia Healthcare Company, Inc.  
Condensed Consolidating Statement of Cash Flows  
Three Months Ended March 31, 2016  
(In thousands)

|                                                                                                                      | Parent      | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|----------------------------------------------------------------------------------------------------------------------|-------------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| <b>Operating activities:</b>                                                                                         |             |                                      |                                |                              |                                  |
| Net income (loss)                                                                                                    | \$ 25,369   | \$ 26,308                            | \$ 14,561                      | \$ (40,869)                  | \$ 25,369                        |
| <b>Adjustments to reconcile net income (loss) to net cash (used in) provided by continuing operating activities:</b> |             |                                      |                                |                              |                                  |
| Equity in earnings of subsidiaries                                                                                   | (40,869)    | —                                    | —                              | 40,869                       | —                                |
| Depreciation and amortization                                                                                        | —           | 12,751                               | 15,224                         | —                            | 27,975                           |
| Amortization of debt issuance costs                                                                                  | 2,254       | —                                    | (107)                          | —                            | 2,147                            |
| Equity-based compensation expense                                                                                    | 6,956       | —                                    | —                              | —                            | 6,956                            |
| Deferred income tax (benefit) expense                                                                                | —           | 8,846                                | 239                            | —                            | 9,085                            |
| Gain on foreign currency derivatives                                                                                 | (410)       | —                                    | —                              | —                            | (410)                            |
| Other                                                                                                                | —           | 896                                  | (14)                           | —                            | 882                              |
| Change in operating assets and liabilities, net of effect of acquisitions:                                           |             |                                      |                                |                              |                                  |
| Accounts receivable, net                                                                                             | —           | (13,560)                             | 9,811                          | —                            | (3,749)                          |
| Other current assets                                                                                                 | —           | (3,596)                              | (4,479)                        | —                            | (8,075)                          |
| Other assets                                                                                                         | —           | (1,992)                              | (410)                          | —                            | (2,402)                          |
| Accounts payable and other accrued liabilities                                                                       | —           | 7,564                                | (66)                           | —                            | 7,498                            |
| Accrued salaries and benefits                                                                                        | —           | 6,388                                | (12,735)                       | —                            | (6,347)                          |
| Other liabilities                                                                                                    | —           | 4,416                                | (4,062)                        | —                            | 354                              |
| Net cash (used in) provided by continuing operating activities                                                       | (6,700)     | 48,021                               | 17,962                         | —                            | 59,283                           |
| Net cash used in discontinued operating activities                                                                   | —           | (619)                                | —                              | —                            | (619)                            |
| Net cash (used in) provided by operating activities                                                                  | (6,700)     | 47,402                               | 17,962                         | —                            | 58,664                           |
| <b>Investing activities:</b>                                                                                         |             |                                      |                                |                              |                                  |
| Cash paid for acquisitions, net of cash acquired                                                                     | —           | —                                    | (580,096)                      | —                            | (580,096)                        |
| Cash paid for capital expenditures                                                                                   | —           | (64,272)                             | (25,817)                       | —                            | (90,089)                         |
| Cash paid for real estate acquisitions                                                                               | —           | (2,998)                              | (11,801)                       | —                            | (14,799)                         |
| Settlement of foreign currency derivatives                                                                           | —           | 745                                  | —                              | —                            | 745                              |
| Other                                                                                                                | —           | (1,208)                              | —                              | —                            | (1,208)                          |
| Net cash used in investing activities                                                                                | —           | (67,733)                             | (617,714)                      | —                            | (685,447)                        |
| <b>Financing activities:</b>                                                                                         |             |                                      |                                |                              |                                  |
| Borrowings on long-term debt                                                                                         | 1,480,000   | —                                    | —                              | —                            | 1,480,000                        |
| Borrowings on revolving credit facility                                                                              | 58,000      | —                                    | —                              | —                            | 58,000                           |
| Principal payments on revolving credit facility                                                                      | (166,000)   | —                                    | —                              | —                            | (166,000)                        |
| Principal payments on long-term debt                                                                                 | (13,669)    | —                                    | —                              | —                            | (13,669)                         |
| Repayment of assumed debt                                                                                            | (1,348,389) | —                                    | —                              | —                            | (1,348,389)                      |
| Payment of debt issuance costs                                                                                       | (34,167)    | —                                    | —                              | —                            | (34,167)                         |
| Issuance of common stock                                                                                             | 685,097     | —                                    | —                              | —                            | 685,097                          |
| Common stock withheld for minimum statutory taxes, net                                                               | (6,679)     | —                                    | —                              | —                            | (6,679)                          |
| Excess tax benefit from equity awards                                                                                | —           | —                                    | —                              | —                            | —                                |
| Other                                                                                                                | —           | (224)                                | —                              | —                            | (224)                            |
| Cash (used in) provided by intercompany activity                                                                     | (647,493)   | 35,637                               | 611,856                        | —                            | —                                |
| Net cash provided by financing activities                                                                            | 6,700       | 35,413                               | 611,856                        | —                            | 653,969                          |
| Effect of exchange rate changes on cash                                                                              | —           | —                                    | (1,819)                        | —                            | (1,819)                          |
| Net increase in cash and cash equivalents                                                                            | —           | 15,082                               | 10,285                         | —                            | 25,367                           |
| Cash and cash equivalents at beginning of the period                                                                 | —           | 1,987                                | 9,228                          | —                            | 11,215                           |
| Cash and cash equivalents at end of the period                                                                       | \$ —        | \$ 17,069                            | \$ 19,513                      | \$ —                         | \$ 36,582                        |

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Acadia Healthcare Company, Inc.  
Condensed Consolidating Statement of Cash Flows  
Three Months Ended March 31, 2015  
(In thousands)

|                                                                                                                      | Parent    | Combined<br>Subsidiary<br>Guarantors | Combined<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated<br>Amounts |
|----------------------------------------------------------------------------------------------------------------------|-----------|--------------------------------------|--------------------------------|------------------------------|----------------------------------|
| <b>Operating activities:</b>                                                                                         |           |                                      |                                |                              |                                  |
| Net income (loss)                                                                                                    | \$ 14,594 | \$ 21,578                            | \$ 4,409                       | \$ (25,987)                  | \$ 14,594                        |
| <b>Adjustments to reconcile net income (loss) to net cash (used in) provided by continuing operating activities:</b> |           |                                      |                                |                              |                                  |
| Equity in earnings of subsidiaries                                                                                   | (25,987)  | —                                    | —                              | 25,987                       | —                                |
| Depreciation and amortization                                                                                        | —         | 8,711                                | 4,393                          | —                            | 13,104                           |
| Amortization of debt issuance costs                                                                                  | 1,578     | —                                    | (110)                          | —                            | 1,468                            |
| Equity-based compensation expense                                                                                    | 3,894     | —                                    | —                              | —                            | 3,894                            |
| Deferred income tax (benefit) expense                                                                                | 646       | 18,354                               | 224                            | —                            | 19,224                           |
| Loss from discontinued operations, net of taxes                                                                      | —         | (2)                                  | —                              | —                            | (2)                              |
| Gain on foreign currency derivatives                                                                                 | (53)      | —                                    | —                              | —                            | (53)                             |
| Other                                                                                                                | —         | 364                                  | 14                             | —                            | 378                              |
| Change in operating assets and liabilities, net of effect of acquisitions:                                           |           |                                      |                                |                              |                                  |
| Accounts receivable, net                                                                                             | —         | (8,265)                              | 1,308                          | —                            | (6,957)                          |
| Other current assets                                                                                                 | —         | (24,182)                             | 424                            | —                            | (23,758)                         |
| Other assets                                                                                                         | —         | (638)                                | 2                              | —                            | (636)                            |
| Accounts payable and other accrued liabilities                                                                       | —         | 6,645                                | (5,371)                        | —                            | 1,274                            |
| Accrued salaries and benefits                                                                                        | —         | (4,440)                              | (582)                          | —                            | (5,022)                          |
| Other liabilities                                                                                                    | —         | 762                                  | (182)                          | —                            | 580                              |
| Net cash (used in) provided by continuing operating activities                                                       | (5,328)   | 18,887                               | 4,529                          | —                            | 18,088                           |
| Net cash provided by discontinued operating activities                                                               | —         | 134                                  | —                              | —                            | 134                              |
| Net cash (used in) provided by operating activities                                                                  | (5,328)   | 19,021                               | 4,529                          | —                            | 18,222                           |
| <b>Investing activities:</b>                                                                                         |           |                                      |                                |                              |                                  |
| Cash paid for acquisitions, net of cash acquired                                                                     | —         | (48,317)                             | (1,301)                        | —                            | (49,618)                         |
| Cash paid for capital expenditures                                                                                   | —         | (41,426)                             | (11,453)                       | —                            | (52,879)                         |
| Cash paid for real estate acquisitions                                                                               | —         | (1,722)                              | —                              | —                            | (1,722)                          |
| Other                                                                                                                | —         | (383)                                | —                              | —                            | (383)                            |
| Net cash used in investing activities                                                                                | —         | (91,848)                             | (12,754)                       | —                            | (104,602)                        |
| <b>Financing activities:</b>                                                                                         |           |                                      |                                |                              |                                  |
| Borrowings on long-term debt                                                                                         | 875,000   | —                                    | —                              | —                            | 875,000                          |
| Borrowings on revolving credit facility                                                                              | 93,000    | —                                    | —                              | —                            | 93,000                           |
| Principal payments on long-term debt                                                                                 | (7,938)   | —                                    | —                              | —                            | (7,938)                          |
| Repayment of assumed debt                                                                                            | (904,467) | —                                    | —                              | —                            | (904,467)                        |
| Payment of debt issuance costs                                                                                       | (22,191)  | —                                    | —                              | —                            | (22,191)                         |
| Common stock withheld for minimum statutory taxes, net                                                               | (5,110)   | —                                    | —                              | —                            | (5,110)                          |
| Excess tax benefit from equity awards                                                                                | 4,310     | —                                    | —                              | —                            | 4,310                            |
| Cash (used in) provided by intercompany activity                                                                     | (27,276)  | 10,964                               | 16,312                         | —                            | —                                |
| Net cash provided by financing activities                                                                            | 5,328     | 10,964                               | 16,312                         | —                            | 32,604                           |
| Effect of exchange rate changes on cash                                                                              | —         | —                                    | (2,232)                        | —                            | (2,232)                          |
| Net (decrease) increase in cash and cash equivalents                                                                 | —         | (61,863)                             | 5,855                          | —                            | (56,008)                         |
| Cash and cash equivalents at beginning of the period                                                                 | —         | 76,685                               | 17,355                         | —                            | 94,040                           |
| Cash and cash equivalents at end of the period                                                                       | \$ —      | \$ 14,822                            | \$ 23,210                      | \$ —                         | \$ 38,032                        |



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statements that address future results or occurrences. In some cases you can identify forward-looking statements by terminology such as "may," "might," "will," "would," "should," "could" or the negative thereof. Generally, the words "anticipate," "believe," "continue," "expect," "intend," "estimate," "project," "plan" and similar expressions identify forward-looking statements. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks, uncertainties and other factors, many of which are outside of our control, which could cause our actual results, performance or achievements to differ materially from any results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

- review of our acquisition of Priory by the Competition and Markets Authority ("CMA") in the United Kingdom;
- our significant indebtedness, our ability to meet our debt obligations, and our ability to incur substantially more debt;
- difficulties in successfully integrating the operations of acquired facilities, including those acquired in the Priory and CRC acquisitions, or realizing the potential benefits and synergies of our acquisitions;
- our ability to implement our business strategies in the United Kingdom and adapt to the regulatory and business environment in the United Kingdom;
- the impact of payments received from the government and third-party payors on our revenues and results of operations including the significant dependence of the Priory and Partnerships in Care facilities on payments received from the NHS;
- the occurrence of patient incidents, which could result in negative media coverage, adversely affect the price of our securities and result in incremental regulatory burdens and governmental investigations;
- our future cash flow and earnings;
- our restrictive covenants, which may restrict our business and financing activities;
- our ability to make payments on our financing arrangements;
- the impact of the economic and employment conditions in the United States and the United Kingdom on our business and future results of operations;
- compliance with laws and government regulations;
- the impact of claims brought against our facilities;
- the impact of governmental investigations, regulatory actions and whistleblower lawsuits;
- the impact of healthcare reform in the United States and abroad;
- the impact of our highly competitive industry on patient volumes;
- our ability to recruit and retain quality psychiatrists and other physicians;
- the impact of competition for staffing on our labor costs and profitability;
- our dependence on key management personnel, key executives and local facility management personnel;
- our acquisition strategy, which exposes us to a variety of operational and financial risks, as well as legal and regulatory risks (e.g., exposure to the new regulatory regimes such as the United Kingdom for Priory and Partnerships in Care and various investigations relating to CRC);
- the impact of state efforts to regulate the construction or expansion of healthcare facilities (including those from Priory, CRC and Partnerships in Care) on our ability to operate and expand our operations;
- our potential inability to extend leases at expiration;
- the impact of controls designed to reduce inpatient services on our revenues;
- the impact of different interpretations of accounting principles on our results of operations or financial condition;
- the impact of environmental, health and safety laws and regulations, especially in states where we have concentrated operations;
- the impact of an increase in uninsured and underinsured patients or the deterioration in the collectability of the accounts of such patients on our results of operations;
- the risk of a cyber-security incident and any resulting violation of laws and regulations regarding information privacy or other negative impact;
- the impact of laws and regulations relating to privacy and security of patient health information and standards for electronic transactions;
- the impact of a change in the mix of our earnings, and changes in tax rates and laws generally;
- failure to maintain effective internal control over financial reporting;
- the impact of fluctuations in our operating results, quarter to quarter earnings and other factors on the price of our securities;
- the impact of the trend for insurance companies and managed care organizations to enter into sole source contracts on our ability to obtain patients;

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- the impact of fluctuations in foreign exchange rates; and
- those risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. These forward-looking statements are made only as of the date of this Quarterly Report on Form 10-Q. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

**Overview**

Our business strategy is to acquire and develop behavioral healthcare facilities and improve our operating results within our facilities and our other behavioral healthcare operations. We strive to improve the operating results of our facilities by providing high-quality services, expanding referral networks and marketing initiatives while meeting the increased demand for behavioral healthcare services through expansion of our current locations as well as developing new services within existing locations. At March 31, 2016, we operated 585 behavioral healthcare facilities with over 17,400 beds in 39 states, the United Kingdom and Puerto Rico. During the three months ended March 31, 2016, we acquired 324 facilities and added approximately 330 new beds, including 250 to existing facilities and 80 in one de novo facility. For the year ending December 31, 2016, we expect to add approximately 800 total beds exclusive of acquisitions.

We are the leading publicly traded pure-play provider of behavioral healthcare services, with operations in the United States and the United Kingdom. Management believes that the Company's recent acquisitions position the Company as a leading platform in a highly fragmented industry under the direction of an experienced management team that has significant industry expertise. Management expects to take advantage of several strategies that are more accessible as a result of our increased size and geographic scale, including continuing a national marketing strategy to attract new patients and referral sources, increasing our volume of out-of-state referrals, providing a broader range of services to new and existing patients and clients and selectively pursuing opportunities to expand our facility and bed count.

**Acquisitions**

On February 16, 2016, we completed the acquisition of Priory for a total purchase price of approximately \$2.2 billion, including total cash consideration of approximately \$1.9 billion and the issuance of 4,033,561 shares of our common stock. Priory is the leading independent provider of behavioral healthcare services in the United Kingdom. The CMA in the United Kingdom currently is reviewing our acquisition of Priory. We cannot determine when the CMA will complete its review of the acquisition of Priory and, until such review is complete, we will not be allowed to integrate Priory's business. Further, we may be required by the CMA to divest part of Priory's or our respective businesses. At February 16, 2016, Priory operated 324 facilities with approximately 7,100 beds.

On April 1, 2016, we completed the acquisition of Serenity Knolls, an inpatient psychiatric facility with 30 beds located in Forest Knolls, California, for cash consideration of approximately \$10.0 million.

**Revenue**

Our revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and adolescent residential treatment. We receive payments from the following sources for services rendered in our facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by CMS; (iv) the NHS (including Local Authorities) in the United Kingdom; and (v) individual patients and clients. Revenue is recorded in the period in which services are provided at established billing rates less contractual adjustments based on amounts reimbursable by Medicare or Medicaid under provisions of cost or prospective reimbursement formulas or amounts due from other third-party payors at contractually determined rates.

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The following table presents revenue by payor type and as a percentage of revenue before provision for doubtful accounts for the three months ended March 31, 2016 and 2015 (dollars in thousands):

|                                                | Three Months Ended March 31, |        |                  |        |
|------------------------------------------------|------------------------------|--------|------------------|--------|
|                                                | 2016                         |        | 2015             |        |
|                                                | Amount                       | %      | Amount           | %      |
| Commercial                                     | \$125,719                    | 20.0%  | \$ 83,474        | 22.3%  |
| Medicare                                       | 60,006                       | 9.6%   | 49,145           | 13.1%  |
| Medicaid                                       | 178,273                      | 28.4%  | 126,324          | 33.8%  |
| NHS                                            | 194,017                      | 30.9%  | 72,566           | 19.4%  |
| Self-Pay                                       | 59,348                       | 9.5%   | 29,728           | 7.9%   |
| Other                                          | 9,820                        | 1.6%   | 12,921           | 3.5%   |
| Revenue before provision for doubtful accounts | 627,183                      | 100.0% | 374,158          | 100.0% |
| Provision for doubtful accounts                | (10,370)                     |        | (8,375)          |        |
| Revenue                                        | <u>\$616,813</u>             |        | <u>\$365,783</u> |        |

The following tables present a summary of our aging of accounts receivable as of March 31, 2016 and December 31, 2015:

**March 31, 2016**

|            | Current | 30-90 | 90-150 | >150  | Total  |
|------------|---------|-------|--------|-------|--------|
| Commercial | 15.7%   | 6.9%  | 2.9%   | 3.5%  | 29.0%  |
| Medicare   | 10.5%   | 1.7%  | 0.7%   | 1.2%  | 14.1%  |
| Medicaid   | 20.7%   | 5.9%  | 2.1%   | 3.7%  | 32.4%  |
| NHS        | 12.0%   | 3.7%  | 0.2%   | — %   | 15.9%  |
| Self-Pay   | 2.2%    | 1.9%  | 1.3%   | 2.1%  | 7.5%   |
| Other      | 0.5%    | 0.3%  | 0.2%   | 0.1%  | 1.1%   |
| Total      | 61.6%   | 20.4% | 7.4%   | 10.6% | 100.0% |

**December 31, 2015**

|            | Current | 30-90 | 90-150 | >150  | Total  |
|------------|---------|-------|--------|-------|--------|
| Commercial | 16.6%   | 9.1%  | 3.2%   | 3.0%  | 31.9%  |
| Medicare   | 12.6%   | 2.3%  | 1.2%   | 0.4%  | 16.5%  |
| Medicaid   | 23.4%   | 6.7%  | 2.8%   | 4.2%  | 37.1%  |
| NHS        | 1.6%    | 3.1%  | 0.5%   | — %   | 5.2%   |
| Self-Pay   | 1.7%    | 1.8%  | 2.0%   | 3.0%  | 8.5%   |
| Other      | 0.5%    | 0.1%  | 0.1%   | 0.1%  | 0.8%   |
| Total      | 56.4%   | 23.1% | 9.8%   | 10.7% | 100.0% |



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Table of Contents**Results of Operations**

The following table illustrates our consolidated results of operations from continuing operations for the respective periods shown (dollars in thousands):

|                                                       | Three Months Ended March 31, |        |           |        |
|-------------------------------------------------------|------------------------------|--------|-----------|--------|
|                                                       | 2016                         |        | 2015      |        |
|                                                       | Amount                       | %      | Amount    | %      |
| Revenue before provision for doubtful accounts        | \$627,183                    |        | \$374,158 |        |
| Provision for doubtful accounts                       | (10,370)                     |        | (8,375)   |        |
| Revenue                                               | 616,813                      | 100.0% | 365,783   | 100.0% |
| Salaries, wages and benefits                          | 341,028                      | 55.3%  | 205,871   | 56.3%  |
| Professional fees                                     | 39,991                       | 6.5%   | 22,427    | 6.1%   |
| Supplies                                              | 26,685                       | 4.3%   | 16,254    | 4.4%   |
| Rents and leases                                      | 14,806                       | 2.4%   | 5,886     | 1.6%   |
| Other operating expenses                              | 70,247                       | 11.4%  | 40,527    | 11.1%  |
| Depreciation and amortization                         | 27,975                       | 4.5%   | 13,104    | 3.6%   |
| Interest expense                                      | 37,714                       | 6.1%   | 22,146    | 6.1%   |
| Gain on foreign currency derivatives                  | (410)                        | (0.1)% | (53)      | — %    |
| Transaction-related expenses                          | 26,298                       | 4.3%   | 18,416    | 5.0%   |
| Total expenses                                        | 584,334                      | 94.7%  | 344,578   | 94.2%  |
| Income from continuing operations before income taxes | 32,479                       | 5.3%   | 21,205    | 5.8%   |
| Provision for income taxes                            | 7,110                        | 1.2%   | 6,613     | 1.8%   |
| Income from continuing operations                     | \$ 25,369                    | 4.1%   | \$ 14,592 | 4.0%   |

**Three months ended March 31, 2016 compared to the three months ended March 31, 2015**

*Revenue before provision for doubtful accounts.* Revenue before provision for doubtful accounts increased \$253.0 million, or 67.6%, to \$627.2 million for the three months ended March 31, 2016 from \$374.2 million for the three months ended March 31, 2015. The increase related primarily to revenue generated during the three months ended March 31, 2016 from the facilities acquired in our 2015 and 2016 Acquisitions, particularly the acquisitions of CRC and Priory. Same-facility revenue before provision for doubtful accounts increased by \$32.8 million, or 8.9%, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015, resulting from same-facility growth in patient days of 8.6% and an increase in same-facility revenue per day of 0.5%. Consistent with the same-facility patient day growth in 2015, the growth in same-facility patient days for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 resulted from the addition of beds to our existing facilities and ongoing demand for our services.

*Provision for doubtful accounts.* The provision for doubtful accounts was \$10.4 million for the three months ended March 31, 2016, or 1.7% of revenue before provision for doubtful accounts, compared to \$8.4 million for the three months ended March 31, 2015, or 2.2% of revenue before provision for doubtful accounts.

*Salaries, wages and benefits.* Salaries, wages and benefits ("SWB") expense was \$341.0 million for the three months ended March 31, 2016 compared to \$205.9 million for the three months ended March 31, 2015, an increase of \$135.1 million. SWB expense included \$7.0 million and \$3.9 million of equity-based compensation expense for the three months ended March 31, 2016 and 2015, respectively. Excluding equity-based compensation expense, SWB expense was \$334.0 million, or 54.2% of revenue, for the three months ended March 31, 2016, compared to \$202.0 million, or 55.2% of revenue, for the three months ended March 31, 2015. The \$132.0 million increase in SWB expense, excluding equity-based compensation expense, was primarily attributable to SWB expense incurred by the facilities acquired in our 2015 and 2016 Acquisitions, particularly the acquisitions of CRC and Priory. Same-facility SWB expense was \$198.5 million for the three months ended March 31, 2016, or 50.7% of revenue, compared to \$184.5 million for the three months ended March 31, 2015, or 51.5% of revenue.

*Professional fees.* Professional fees were \$40.0 million for the three months ended March 31, 2016, or 6.5% of revenue, compared to \$22.4 million for the three months ended March 31, 2015, or 6.1% of revenue. The \$17.6 million increase was primarily attributable to professional fees incurred by the facilities acquired in our 2015 and 2016 Acquisitions, particularly the acquisitions of

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CRC and Priory. Same-facility professional fees were \$19.9 million for the three months ended March 31, 2016, or 5.1% of revenue, compared to \$19.4 million, for the three months ended March 31, 2015, or 5.4% of revenue.

*Supplies.* Supplies expense was \$26.7 million for the three months ended March 31, 2016, or 4.3% of revenue, compared to \$16.3 million for the three months ended March 31, 2015, or 4.4% of revenue. The \$10.4 million increase was primarily attributable to supplies expense incurred by the facilities acquired in our 2015 and 2016 Acquisitions, particularly the acquisitions of CRC and Priory. Same-facility supplies expense was \$17.7 million for the three months ended March 31, 2016, or 4.5% of revenue, compared to \$16.0 million for the three months ended March 31, 2015, or 4.5% of revenue.

*Rents and leases.* Rents and leases were \$14.8 million for the three months ended March 31, 2016, or 2.4% of revenue, compared to \$5.9 million for the three months ended March 31, 2015, or 1.6% of revenue. The \$8.9 million increase was primarily attributable to rents and leases incurred by the facilities acquired in our 2015 and 2016 Acquisitions, particularly the acquisitions of CRC and Priory. Same-facility rents and leases were \$6.1 million for the three months ended March 31, 2016, or 1.6% of revenue, compared to \$5.6 million for the three months ended March 31, 2015, or 1.6% of revenue.

*Other operating expenses.* Other operating expenses consisted primarily of purchased services, utilities, insurance, travel and repairs and maintenance expenses. Other operating expenses were \$70.2 million for the three months ended March 31, 2016, or 11.4% of revenue, compared to \$40.5 million for the three months ended March 31, 2015, or 11.1% of revenue. The \$29.7 million increase was primarily attributable to other operating expenses incurred by the facilities acquired in our 2015 and 2016 Acquisitions, particularly the acquisitions of CRC and Priory. Same-facility other operating expenses were \$43.1 million for the three months ended March 31, 2016, or 11.0% of revenue, compared to \$38.8 million for the three months ended March 31, 2015, or 10.8% of revenue.

*Depreciation and amortization.* Depreciation and amortization expense was \$28.0 million for the three months ended March 31, 2016, or 4.5% of revenue, compared to \$13.1 million for the three months ended March 31, 2015, or 3.6% of revenue. The increase in depreciation and amortization was attributable to depreciation associated with capital expenditures during 2015 and 2016 and real estate acquired as part of the 2015 and 2016 Acquisitions, particularly the acquisition of Priory.

*Interest expense.* Interest expense was \$37.7 million for the three months ended March 31, 2016 compared to \$22.1 million for the three months ended March 31, 2015. The increase in interest expense was primarily a result of borrowings under the Amended and Restated Senior Credit Facility, the issuance of the 5.625% Senior Notes on February 11, 2015 and September 21, 2015 and the issuance of the 6.500% Senior Notes on February 16, 2016.

*Gain on foreign currency derivatives.* In connection with acquisitions in the United Kingdom, the Company entered into foreign currency forward contracts during the three months ended March 31, 2016 and 2015 in order to fix the exchange rate applicable to the payment of acquisition purchase prices. Exchange rate changes between the contract date and the settlement date resulted in a gain on foreign currency derivatives of \$0.4 million for the three months ended March 31, 2016, compared to a gain of \$0.1 million for the three months ended March 31, 2015.

*Transaction-related expenses.* Transaction-related expenses were \$26.3 million for the three months ended March 31, 2016 compared to \$18.4 million for the three months ended March 31, 2015. Transaction-related expenses represent costs incurred in the respective periods, primarily related to the 2015 and 2016 Acquisitions, as summarized below (in thousands):

|                                          | Three Months Ended March 31, |                  |
|------------------------------------------|------------------------------|------------------|
|                                          | 2016                         | 2015             |
| Advisory and financing commitment fees   | \$ 14,850                    | \$ 10,337        |
| Legal, accounting and other costs        | 11,448                       | 3,819            |
| Severance and contract termination costs | —                            | 4,260            |
|                                          | <u>\$ 26,298</u>             | <u>\$ 18,416</u> |

*Provision for income taxes.* For the three months ended March 31, 2016, the provision for income taxes was \$7.1 million, reflecting an effective tax rate of 21.9%, compared to \$6.6 million, reflecting an effective tax rate of 31.2%, for the three months ended March 31, 2015. The decrease in the tax rate for the three months ended March 31, 2016 was primarily attributable to the acquisition of Priory, which is located in a lower taxing jurisdiction and for which earnings are permanently reinvested.

**Liquidity and Capital Resources**

Cash provided by continuing operating activities for the three months ended March 31, 2016 was \$58.7 million compared to \$18.1 million for the three months ended March 31, 2015. The increase in cash provided by continuing operating activities was

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primarily attributable to cash provided by continuing operating activities from the 2015 and 2016 Acquisitions and the growth in same-facility operations. Days sales outstanding were 35 days at March 31, 2016 compared to 40 days at December 31, 2015. As of March 31, 2016 and December 31, 2015, we had working capital of \$(15.5) million and \$4.5 million, respectively. The decrease in working capital was primarily attributable to the acquisition of Priory, which has negative working capital because of timing of revenue collections and expense payments.

Cash used in investing activities for the three months ended March 31, 2016 was \$685.4 million compared to \$104.6 million for the three months ended March 31, 2015. Cash used in investing activities for the three months ended March 31, 2016 primarily consisted of \$580.1 million of cash paid for acquisitions. Cash paid for capital expenditures for the three months ended March 31, 2016 was \$90.1 million, consisting of \$18.1 million of routine capital expenditures and \$72.0 million of expansion capital expenditures. We define expansion capital expenditures as those that increase the capacity of our facilities or otherwise enhance revenue. Routine or maintenance capital expenditures were 2.9% of revenue for the three months ended March 31, 2016. Cash paid for real estate acquisitions was \$14.8 million for the three months ended March 31, 2016. Cash used in investing activities for the three months ended March 31, 2015 primarily consisted of \$49.6 million of cash paid for acquisitions, \$52.9 million of cash paid for capital expenditures and \$1.7 million of cash paid for real estate acquisitions.

Cash provided by financing activities for the three months ended March 31, 2016 was \$654.0 million compared to \$32.6 million for the three months ended March 31, 2015. Cash provided by financing activities for the three months ended March 31, 2016 primarily consisted of long-term debt borrowings of \$1.5 billion, borrowings on our revolving credit facility of \$58.0 million and an issuance of common stock of \$685.1 million, partially offset by repayment of assumed Priory debt of \$1.3 billion, payment on revolving credit facility of \$166.0 million, payment of debt issuance costs of \$34.2 million, common stock withheld for minimum statutory taxes of \$6.7 million and principal payments on long-term debt of \$13.7 million. Cash provided by financing activities for the three months ended March 31, 2015 primarily consisted of borrowings on long-term debt instruments of \$875.0 million, borrowings on our revolving credit facility of \$93.0 million and an excess tax benefit from equity awards of \$4.3 million, partially offset by repayment of assumed CRC debt of \$904.5 million, payment of debt issuance costs of \$22.2 million, principal payments on long-term debt of \$7.9 million and common stock withheld for minimum statutory taxes of \$5.1 million.

We had total available cash and cash equivalents of \$36.6 million and \$11.2 million as of March 31, 2016 and December 31, 2015, respectively, of which approximately \$18.6 million and \$9.2 million was held by our foreign subsidiaries, respectively. Our strategic plan does not require the repatriation of foreign cash in order to fund our operations in the U.S., and it is our current intention to permanently reinvest our foreign cash and cash equivalents outside of the U.S. If we were to repatriate foreign cash to the U.S., we would be required to accrue and pay U.S. taxes in accordance with applicable U.S. tax rules and regulations as a result of the repatriation.

***Amended and Restated Senior Credit Facility***

We entered into the Senior Secured Credit Facility on April 1, 2011. On December 31, 2012, we entered into the Amended and Restated Credit Agreement which amended and restated the Senior Secured Credit Facility. We have amended the Amended and Restated Credit Agreement from time to time as described in our prior filings with the Securities and Exchange Commission.

On February 6, 2015, we entered into the Seventh Amendment to our Amended and Restated Credit Agreement. The Seventh Amendment added Citibank, N.A. as an "L/C Issuer" under the Amended and Restated Credit Agreement in order to permit the rollover of CRC's existing letters of credit into the Amended and Restated Credit Agreement and increased both the Company's Letter of Credit Sublimit and Swing Line Sublimit to \$20.0 million.

On February 11, 2015, we entered into the First Incremental Amendment to our Amended and Restated Credit Agreement. The First Incremental Amendment activated a new \$500.0 million incremental Existing TLB Facility that was added to the Amended and Restated Senior Secured Credit Facility, subject to limited conditionality provisions. Borrowings under the Existing TLB Facility were used to fund a portion of the purchase price for our acquisition of CRC.

On April 22, 2015, we entered into an Eighth Amendment to our Amended and Restated Credit Agreement. The Eighth Amendment changed the definition of "Change of Control" in part to remove a provision whose purpose was, when calculating whether a majority of incumbent directors have approved new directors, that any incumbent director that became a director as a result of a threatened or actual proxy contest was not counted in such calculation.

On January 25, 2016, we entered into the Ninth Amendment to our Amended and Restated Credit Agreement. The Ninth Amendment modifies certain definitions and provides increased flexibility to us in terms of our financial covenants. Our baskets for permitted investments were also increased to provide increased flexibility for us to invest in non-wholly owned subsidiaries, joint ventures and foreign subsidiaries. We may now invest in non-wholly owned subsidiaries and joint ventures up to 10.0% of our and our subsidiaries' total assets in any consecutive four fiscal quarter period, and up to 12.5% of our and our subsidiaries' total assets during

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the term of the Amended and Restated Credit Agreement. We may also invest in foreign subsidiaries that are not loan parties up to 10% of our and our subsidiaries' total assets in any consecutive four fiscal quarter period, and up to 15% of our and our subsidiaries' total assets during the term of the Amended and Restated Credit Agreement. The foregoing permitted investments are subject to an aggregate cap of 25% of our and our subsidiaries' total assets in any fiscal year.

On February 16, 2016, we entered into the Second Incremental Facility Amendment to our Amended and Restated Credit Agreement. The Second Incremental Amendment activated a new \$955.0 million incremental Term Loan B facility and added \$135.0 million to the Term Loan A facility to our Amended and Restated Senior Secured Credit Facility, subject to limited conditionality provisions. Borrowings under the New TLB Facility were used to fund a portion of the purchase price for the acquisition of Priory and the fees and expenses for such acquisition and the related financing transactions. Borrowings under the TLA Facility were used to pay down the majority of our \$300.0 million revolving credit facility.

We had \$241.5 million of availability under the revolving line of credit as of March 31, 2016. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our TLA Facility of \$10.0 million for March 31, 2016, \$12.6 million for June 30, 2016 to December 31, 2016, \$16.8 million for March 31, 2017 to December 31, 2017, and \$20.9 million for March 31, 2018 to December 31, 2018, with the remaining principal balance of the TLA Facility due on the maturity date of February 13, 2019. We are required to repay the Existing TLB Facility in equal quarterly installments of \$1.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Existing TLB Facility due on February 11, 2022. We are required to repay the New TLB Facility in equal quarterly installments of approximately \$2.4 million on the last business day of each March, June, September and December, with the outstanding principal balance of the New TLB Facility due on February 16, 2023.

Borrowings under the Amended and Restated Credit Agreement are guaranteed by each of our wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of our and such subsidiaries' assets. Borrowings with respect to the TLA Facility and our revolving credit facility (collectively, "Pro Rata Facilities") under the Amended and Restated Credit Agreement bear interest at a rate tied to Acadia's Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$40.0 million of unrestricted and unencumbered cash to consolidated EBITDA, in each case as defined in the Amended and Restated Credit Agreement). The Applicable Rate (as defined in the Amended and Restated Credit Agreement) for the Pro Rata Facilities was 3.25% for Eurodollar Rate Loans (as defined in the Amended and Restated Credit Agreement) and 2.0% for Base Rate Loans (as defined in the Amended and Restated Credit Agreement) at March 31, 2016. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) (based upon the LIBOR Rate (as defined in the Amended and Restated Credit Agreement) prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As of March 31, 2016, the Pro Rata Facilities bore interest at a rate of LIBOR plus 3.25%. In addition, we are required to pay a commitment fee on undrawn amounts under our revolving credit facility.

The interest rates and the unused line fee on unused commitments related to the Pro Rata Facilities are based upon the following pricing tiers:

| Pricing Tier | Consolidated Leverage Ratio | Eurodollar Rate<br>Loans | Base Rate<br>Loans | Commitment<br>Fee |
|--------------|-----------------------------|--------------------------|--------------------|-------------------|
| 1            | < 3.50:1.0                  | 2.25%                    | 1.25%              | 0.30%             |
| 2            | > 3.50:1.0 but < 4.00:1.0   | 2.50%                    | 1.50%              | 0.35%             |
| 3            | > 4.00:1.0 but < 4.50:1.0   | 2.75%                    | 1.75%              | 0.40%             |
| 4            | > 4.50:1.0 but < 5.25:1.0   | 3.00%                    | 2.00%              | 0.45%             |
| 5            | > 5.25:1.0                  | 3.25%                    | 2.25%              | 0.50%             |

Eurodollar Rate Loans with respect to the Existing TLB Facility bear interest at the Existing TLB Applicable Rate (as defined below) plus the Eurodollar Rate (subject to a floor of 0.75% and based upon the LIBOR Rate prior to commencement of the interest rate period). Base Rate Loans bear interest at the Existing TLB Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term "Existing TLB Applicable Rate" means, with respect to Eurodollar Rate Loans, 3.50%, and with respect to Base Rate Loans, 2.50%. The New TLB Facility bears interest as follows: Eurodollar Rate Loans bear interest at the Applicable Rate (as defined in the Amended and Restated Credit Agreement) plus the Eurodollar Rate (subject to a floor of 0.75% and based upon the LIBOR Rate prior to commencement of the interest rate period) and Base Rate Loans bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term "Applicable Rate" means, with respect to Eurodollar Rate Loans, 3.75%, and with respect to Base Rate Loans, 2.75%.



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The lenders who provided the Existing TLB Facility and New TLB Facility are not entitled to benefit from the Company's maintenance of its financial covenants under the Amended and Restated Credit Agreement. Accordingly, if we fail to maintain its financial covenants, such failure shall not constitute an event of default under the Amended and Restated Credit Agreement with respect to the Existing TLB Facility or the New TLB Facility until and unless the Amended and Restated Senior Credit Facility is accelerated or the commitment of the lenders to make further loans is terminated.

The Amended and Restated Credit Agreement requires us and our subsidiaries to comply with customary affirmative, negative and financial covenants, including a fixed charge coverage ratio, consolidated leverage ratio and consolidated senior secured leverage ratio. We may be required to pay all of our indebtedness immediately if we default on any of the numerous financial or other restrictive covenants contained in any of its material debt agreements. We may be required to pay all of our indebtedness immediately if we default on any of the numerous financial or other restrictive covenants contained in any of our material debt agreements. Set forth below is a brief description of such covenants, all of which are subject to customary exceptions, materiality thresholds and qualifications:

- a) the affirmative covenants include the following: (i) delivery of financial statements and other customary financial information; (ii) notices of events of default and other material events; (iii) maintenance of existence, ability to conduct business, properties, insurance and books and records; (iv) payment of taxes; (v) lender inspection rights; (vi) compliance with laws; (vii) use of proceeds; (viii) further assurances; and (ix) additional collateral and guarantor requirements.
- b) the negative covenants include limitations on the following: (i) liens; (ii) debt (including guaranties); (iii) investments; (iv) fundamental changes (including mergers, consolidations and liquidations); (v) dispositions; (vi) sale leasebacks; (vii) affiliate transactions; (viii) burdensome agreements; (ix) restricted payments; (x) use of proceeds; (xi) ownership of subsidiaries; (xii) changes to line of business; (xiii) changes to organizational documents, legal name, state of formation, form of entity and fiscal year; (xiv) prepayment or redemption of certain senior unsecured debt; and (xv) amendments to certain material agreements. The Company is generally not permitted to issue dividends or distributions other than with respect to the following: (w) certain tax distributions; (x) the repurchase of equity held by employees, officers or directors upon the occurrence of death, disability or termination subject to cap of \$500,000 in any fiscal year and compliance with certain other conditions; (y) in the form of capital stock; and (z) scheduled payments of deferred purchase price, working capital adjustments and similar payments pursuant to the merger agreement or any permitted acquisition.
- c) The financial covenants include maintenance of the following:
  - the fixed charge coverage ratio may not be less than 1.25:1.00 as of the end of any fiscal quarter;
  - the total leverage ratio may not be greater than the following levels as of the end of each fiscal quarter listed below:

|      | March 31 | June 30 | September 30 | December 31 |
|------|----------|---------|--------------|-------------|
| 2016 | 6.75x    | 6.75x   | 6.75x        | 6.25x       |
| 2017 | 6.00x    | 6.00x   | 6.00x        | 5.50x       |
| 2018 | 5.50x    | 5.50x   | 5.50x        | 5.00x       |

- the secured leverage ratio may not be greater than the following levels as of the end of each fiscal quarter listed below:

|                                                      |       |
|------------------------------------------------------|-------|
| March 31, 2016- September 30, 2016                   | 3.75x |
| December 31, 2016 and each fiscal quarter thereafter | 3.50x |

As of March 31, 2016, the Company was in compliance with all of the above covenants.

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Table of Contents**Senior Notes****6.125% Senior Notes Due 2021**

On March 12, 2013, we issued \$150.0 million of 6.125% Senior Notes due 2021. The 6.125% Senior Notes mature on March 15, 2021 and bear interest at a rate of 6.125% per annum, payable semi-annually in arrears on March 15 and September 15 of each year.

**5.125% Senior Notes due 2022**

On July 1, 2014, we issued \$300.0 million of 5.125% Senior Notes due 2022. The 5.125% Senior Notes mature on July 1, 2022 and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears on January 1 and July 1 of each year.

**5.625% Senior Notes due 2023**

On February 11, 2015, we issued \$375.0 million of 5.625% Senior Notes due 2023. The 5.625% Senior Notes mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year.

On September 21, 2015, we issued \$275.0 million of additional 5.625% Senior Notes. The additional notes form a single class of debt securities with the existing 5.625% Senior Notes. Giving effect to this issuance, we have outstanding an aggregate of \$650.0 million of 5.625% Senior Notes.

**6.500% Senior Notes due 2024**

On February 16, 2016, we issued \$390.0 million of 6.500% Senior Notes due 2024. The 6.500% Senior Notes mature on March 1, 2024 and bear interest at a rate of 6.500% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016.

The indentures governing the Senior Notes contain covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets; and (vii) create liens on assets.

The Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

The Company may redeem the Senior Notes at its option, in whole or part, at the dates and amounts set forth in the indentures.

**9.0% and 9.5% Revenue Bonds**

On November 11, 2012, in connection with the acquisition of Park Royal, we assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5%, respectively. The 9.0% bonds in the amount of \$7.5 million have a maturity date of December 1, 2030 and require yearly principal payments beginning in 2013. The 9.5% bonds in the amount of \$15.5 million have a maturity date of December 1, 2040 and require yearly principal payments beginning in 2031. The principal payments establish a bond-sinking fund to be held with the trustee and shall be sufficient to redeem the principal amounts of the 9.0% and 9.5% Revenue Bonds on their respective maturity dates. As of March 31, 2016 and December 31, 2015, \$2.3 million was recorded within other assets on the balance sheet related to the debt service reserve fund requirements. The yearly principal payments, which establish a bond sinking fund, will increase the debt service reserve fund requirements. The bond premium amount of \$2.6 million is amortized as a reduction of interest expense over the life of the 9.0% and 9.5% Revenue Bonds using the effective interest method.

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Table of Contents**Contractual Obligations**

The following table presents a summary of contractual obligations as of March 31, 2016 (dollars in thousands):

|                                    | Payments Due by Period |             |           |                      | Total       |
|------------------------------------|------------------------|-------------|-----------|----------------------|-------------|
|                                    | Less Than<br>1 Year    | 1-3 Years   | 3-5 Years | More Than<br>5 Years |             |
| Long-term debt (a)                 | \$242,636              | \$ 938,857  | \$479,578 | \$3,075,919          | \$4,736,990 |
| Operating leases                   | 70,075                 | 122,499     | 104,306   | 870,955              | 1,167,835   |
| Purchase and other obligations (b) | 1,848                  | 2,740       | 1,928     | 28,817               | 35,333      |
| Total obligations and commitments  | \$314,559              | \$1,064,096 | \$585,812 | \$3,975,691          | \$5,940,158 |

- (a) Amounts include required principal and interest payments. The projected interest payments reflect the interest rates in place on our variable-rate debt based at of March 31, 2016.
- (b) Amounts relate to purchase obligations, including capital lease payments.

**Off-Balance Sheet Arrangements**

As of March 31, 2016, we had standby letters of credit outstanding of \$8.5 million related to security for the payment of claims as required by our workers' compensation insurance program.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our interest expense is sensitive to changes in market interest rates. With respect to our interest-bearing liabilities, our long-term debt outstanding at March 31, 2016 was composed of \$1.5 billion of fixed-rate debt and \$2.1 billion of variable-rate debt with interest based on LIBOR plus an applicable margin. A hypothetical 10% increase in interest rates would decrease our net income and cash flows by \$3.7 million on an annual basis based upon our borrowing level at March 31, 2016.

The functional currency for our U.K. facilities is GBP. Our revenue and earnings are sensitive to changes in GBP to USD exchange rate. As a result, our future earnings could be affected by fluctuations in the exchange rate between USD and GBP. Based upon the level of our U.K. operations relative to the Company as a whole, a hypothetical 10% change in this exchange rate would cause a change in our net income of \$2.5 million for the three months ended March 31, 2016.

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, our management conducted an evaluation, with the participation of our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2016 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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Table of Contents**PART II – OTHER INFORMATION****Item 1. Legal Proceedings**

We are, from time to time, subject to various claims and legal actions that arise in the ordinary course of our business, including claims for damages for personal injuries, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance. In the opinion of management, we are not currently a party to any proceeding that would have a material adverse effect on our business, financial condition or results of operations.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The risks, as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company's business, financial condition, operating results or cash flows.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three months ended March 31, 2016, the Company withheld shares of Company common stock to satisfy employee minimum statutory tax withholding obligations payable upon the vesting of restricted stock, as follows:

| Period                   | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------|----------------------------------|------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| January 1 – January 31   | 285                              | \$ 62.46                     | —                                                                                | —                                                                              |
| February 1 – February 28 | 50,877                           | 55.97                        | —                                                                                | —                                                                              |
| March 1 – March 31       | 23,847                           | 53.07                        | —                                                                                | —                                                                              |
| Total                    | 75,009                           |                              |                                                                                  |                                                                                |

**Item 6. Exhibits**

| <u>Exhibit No.</u> | <u>Exhibit Description</u>                                                                                                                                                                                                                                    |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1                | Amendment to Sale and Purchase Deed, by and among Whitewell UK Investments 1 Limited, the institutional sellers named therein, Appleby Trust (Jersey) Limited, the management sellers named therein, and Acadia Healthcare Company, Inc. (the "Company"). (1) |
| 3.1                | Amended and Restated Certificate of Incorporation, as filed on October 28, 2011 with the Secretary of State of the State of Delaware, as amended by the Certificate of Amendment filed on March 3, 2016. (2)                                                  |
| 3.2                | Amended and Restated Bylaws of the Company. (3)                                                                                                                                                                                                               |
| 4.1                | Indenture, dated February 16, 2016, by and among the Company, the guarantors party thereto and U.S. Bank National Association, as Trustee. (4)                                                                                                                |
| 4.2                | Form of 6.500% Senior Note due 2024 (Included in Exhibit 4.1).                                                                                                                                                                                                |
| 4.3                | Registration Rights Agreement, dated February 16, 2016, by and among the Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as Representatives of the Initial Purchasers. (4)                    |
| 4.4                | Joinder, dated February 16, 2016, to the Third Amended and Restated Registration Rights Agreement dated as of December 31, 2015, by and among the Company and each of the parties named therein. (4)                                                          |
| 10.1               | Underwriting Agreement, dated January 6, 2016, by and among the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC, as the underwriters named therein. (1)                                                                      |
| 10.2               | Ninth Amendment, dated January 25, 2016, to the Amended and Restated Credit Agreement. (5)                                                                                                                                                                    |



June 27, 2016

9:26 am

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| <u>Exhibit No.</u> | <u>Exhibit Description</u>                                                                                                                                                                                                 |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.3               | Purchase Agreement, dated February 4, 2016, by and among the Company, the Guarantors, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC as representatives of the initial purchasers named therein. (6) |
| 10.4               | Second Incremental Facility Amendment, dated February 16, 2016, to the Amended and Restated Credit Agreement. (4)                                                                                                          |
| 31.1*              | Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.           |
| 31.2*              | Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.           |
| 32*                | Certification of Chief Executive Officer and Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                              |
| 101.INS**          | XBRL Instance Document.                                                                                                                                                                                                    |
| 101.SCH**          | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                   |
| 101.CAL**          | XBRL Taxonomy Calculation Linkbase Document.                                                                                                                                                                               |
| 101.DEF**          | XBRL Taxonomy Extension Definition Linkbase Document.                                                                                                                                                                      |
| 101.LAB**          | XBRL Taxonomy Labels Linkbase Document.                                                                                                                                                                                    |
| 101.PRE**          | XBRL Taxonomy Presentation Linkbase Document.                                                                                                                                                                              |

(1) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 8, 2016 (File No. 001-35331).

(2) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed March 3, 2016 (File No. 001-35331).

(3) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 1, 2011 (File No. 001-35331).

(4) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 16, 2016 (File No. 001-35331).

(5) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 27, 2016 (File No. 001-35331).

(6) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 5, 2016 (File No. 001-35331).

\* Filed herewith.

\*\* The XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

**June 27, 2016****9:26 am**Table of Contents**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Acadia Healthcare Company, Inc.

By: /s/ David M. Duckworth

David M. Duckworth  
Chief Financial Officer

Dated: April 29, 2016

**June 27, 2016**

**9:26 am**

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**EXHIBIT INDEX**

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| *                  | Filed herewith.                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| **                 | The XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document. |

**June 27, 2016****9:26 am**

Exhibit 31.1

**CERTIFICATION OF CEO PURSUANT TO  
RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joey A. Jacobs, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acadia Healthcare Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2016

/s/ Joey A. Jacobs

Joey A. Jacobs

Chairman of the Board and Chief Executive Officer

June 27, 2016

9:26 am

Exhibit 31.2

CERTIFICATION OF CFO PURSUANT TO  
RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David M. Duckworth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acadia Healthcare Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2016

/s/ David M. Duckworth

David M. Duckworth  
Chief Financial Officer

**June 27, 2016****9:26 am**

Exhibit 32

**CERTIFICATIONS OF CEO AND CFO PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Acadia Healthcare Company, Inc. (the "Company") for the quarterly period ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joey A. Jacobs, Chief Executive Officer of the Company, and I, David M. Duckworth, Chief Financial Officer of the Company, each certify, for the purpose of complying with 18 U.S.C. Section 1350 and Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: April 29, 2016

/s/ Joey A. Jacobs

Joey A. Jacobs  
Chairman of the Board and Chief Executive Officer

/s/ David M. Duckworth

David M. Duckworth  
Chief Financial Officer

# TrustPoint Hospital LLC

Murfreesboro, TN

has been Accredited by



## The Joint Commission


Which has surveyed this organization and found it to meet the requirements for the  
Hospital Accreditation Program

September 11, 2015

Accreditation is customarily valid for up to 36 months.

  
Rebecca J. Patchin, MD  
Chair, Board of Commissioners

ID #528362  
Print/Reprint Date: 11/06/2015

  
Mark R. Chassin, MD, FACP, MPP, MPH  
President

The Joint Commission is an independent, not-for-profit national body that oversees the safety and quality of health care and other services provided in accredited organizations. Information about accredited organizations may be provided directly to The Joint Commission at 1-800-994-6610. Information regarding accreditation and the accreditation performance of individual organizations can be obtained through The Joint Commission's web site at [www.jointcommission.org](http://www.jointcommission.org).



**AFFIDAVIT OF PUBLICATION**

**June 27, 2016**

**9:26 am**

0001345261

Newspaper Daily News Journal

State of Tennessee

Account Number NAS-60645765

Advertiser ANDERSON & BAKER (DNJ)

ANDERSON & BAKER (DNJ)  
2021 RICHARD JONES RD STE 120  
NASHVILLE, TN  
37215

**TEAR SHEET  
ATTACHED**

Jackie Cooper

Sales Assistant for the above mentioned newspaper,

hereby certify that the attached advertisement appeared in said newspaper on the following dates:



06/10/16

Jackie Cooper

Subscribed and sworn to before me this 10 day of June 2016

Angyle Murray  
Notary Public









the personal goods stored therein to the following, may include, but are not limited to general household, furniture, boxes, clothes, and appliances.  
 Unit: A0102 Andre Rowlett Unit: N0023 Chauntaye Hambrick  
 Unit: B0145 Jason Patterson Unit: P0033 Chauntaye Hambrick  
 Unit: D0021 Michael Williams Unit: S0008 James Griggs  
 Unit: G0328 Clifton Johnson  
 Purchases must be made with cash only and paid at the time of sale. All goods are sold as is and must be removed at the time of purchase. Compass Self Storage reserves the right to refuse any bid. Sale is subject to adjournment.

0001345261

### NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED

This is to provide official notice to the Health Services and Development Agency and all interested parties. In accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Trustpoint Hospital, LLC, 1009 North Thompson Lane, Murfreesboro, TN 37129 ("Applicant"), a subsidiary of Acadia Healthcare Company, Inc., 6100 Tower Circle, Suite 1000, Franklin, TN 37067, intends to file a Certificate of Need application for the addition of eighty-eight (88) hospital beds, as follows: Adult Psychiatric Beds will increase from fifty-nine (59) to one hundred eleven (111) beds; Geriatric Psychiatric Beds will remain at thirty-six (36) beds; Medical Detoxification beds will remain at eighteen (18) beds; Physical Rehabilitation beds will increase from sixteen (16) beds to twenty-four (24) beds; Child Psychiatric Beds will increase from no beds to fourteen (14) beds; and Adolescent Psychiatric Beds will increase from no beds to fourteen (14) beds; with total beds at the Applicant increasing from one hundred twenty-nine (129) beds to two hundred seventeen (217) beds. An approximate 119,500 Gross Square Feet new building will be constructed, plus an approximate 4,500 Gross Square Feet covered connector to the existing facility, and an additional approximate 3,372 Gross Square Feet will be added to the existing facility. The requested beds will be licensed by the Tennessee Department of Health as hospital beds, as are the already-approved beds at the Applicant's hospital. In addition to these eighty-eight (88) hospital beds, there will be thirty-two (32) residential care beds constructed in the new building, half (16) beds for adolescents and half (16) beds for children. These thirty-two (32) residential beds are not subject to Certificate of Need review, and will be licensed by the Tennessee Department of Mental Health and Substance Abuse Services. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will continue to serve Medicare, Medicaid, commercially insured, and private-pay patients. The estimated project cost is anticipated to be approximately \$60,000,000, including filing fee. The anticipated date of filing the application is: June 15, 2016. The contact person for this project is E. Graham Baker, Jr., Attorney who may be reached at 2021 Richard Jones Road, Suite 120, Nashville, TN 37215, 615/370-3380. Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency  
 Andrew Jackson Building  
 500 Deaderick Street, Suite 850  
 Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

0001338889

### RETAIL LIQUOR LICENSE NOTICE

Take notice that Vishnu Enterprise, Inc has applied to the CITY OF MURFREESBORO for a certificate of compliance and has or will apply to the Tennessee Alcoholic Beverage Commission at Nashville for a retail liquor license for a store to be named Longhorn Liquor Store and to be located at 223 NW Broad St., Murfreesboro, TN 37130 and owned by the stockholders: Bhadrash Patel 917 Everyman Ct., Columbia, TN 38401 Kinnariben Patel 917 Everyman Ct., Columbia, TN 38401 Devendrabhai Patel 315 Sword Ln., Mt. Juliet, TN 37122 All persons wishing to be heard on the certificate of compliance may personally or through counsel appear or submit their views in writing at City of Murfreesboro, 111 W Vine Street, Murfreesboro, Tennessee 37130, on June 23, 2016 at 7:00 p.m. The Tennessee Alcoholic Beverage Commission will consider the application at a later date to be set by the Tennessee Alcoholic Beverage Commission in Nashville, Tennessee. Interested persons may personally or through counsel submit their views in writing by the hearing date to be scheduled by the TABC. (Rule 0100-03-.09, continued) Anyone with questions concerning this application or the laws relating to it may call or write the Alcoholic Beverage Commission at 500 James Robertson Pkwy, 3rd Floor, Nashville, Tennessee 37243, (615) 741-1602.

0001348220

### Advertisement for Bids

Cannon County  
 200 West Main Street  
 Woodbury, TN 37190  
 Separate sealed Bids for the construction of (briefly describe nature, scope, and major elements of the Work)  
 Contract 116 - NEW HEALTH CENTER - consisting of the construction of a new 5,100 square foot Health Center on a greenfield site including, grading and site preparation, foundation

1 bdrm 1 ba, stove, fridge, utilities furn.  
 \$550 mo, \$300 dep.  
 Liberty Mgmt/Realty Co.  
 615-896-1500

### Careers

## Jobs

new beginnings...

### General

#### DRIVING INSTRUCTORS

Tractor Trailers:  
 Truck driver training group seeks  
 Driving instructors for its  
 Murfreesboro facility. FTA & P/T  
 available. Class A CDL with  
 verifiable experience required.  
 Excellent pay & benefits.  
 No overnight travel.  
 Call 615-896-1500 or email:  
 info@truckdrivetraining.com

### Transportation

### Real Estate

## Rentals

great places to live...

### Com/Industrial Lease

### Swanson

OFFICE • WAREHOUSE • RETAIL  
 INDUSTRIAL • MEDICAL  
 MANUFACTURING • LAND  
 LEASE - SELL - BUILD  
 TRADE - BUY  
 896-0000  
 www.swansonco.com

### Homes For Rent

1-615-423-8716. Murfreesboro, 1 or 2 bdrm, 1 ba Duplexes AND 3 & 4 bdrm Houses. Bellwood area. Near MTSU. DixieLandProperties.net.

### Transportation



### GANNETT Publishing Services at The Tennessean

High and Dry Full-time Truck Driver openings @ \$15 per hour  
 and High and Dry Part-time Truck Driver needed @ \$14 per hour

Gannett Publishing Services at the Tennessean has an immediate need for full-time and part-time truck drivers on our night shift. Our drivers make deliveries to substations in our distribution area. Candidates must be able to lift and carry 40 lbs., must be DOT certified, possess a Class A or B license and have a good driving record. Fridays and Saturdays night shifts are mandatory. Week-end shifts will vary based on the business need.

Starting pay for the full-time position is \$15 and starting pay for the part-time position is \$14 per hour.

For the part-time position, shift times vary throughout the week and the average number of hours per week is between 20 and 24.

Apply on line for the full-time day shift opening at  
<http://bit.ly/accid1>

Apply on line for the full-time night shift opening at  
<http://bit.ly/25nPaEH>

Apply on line for the part-time night and day openings at  
<http://bit.ly/2RL50ZK>

Or call 615-259-8351 or email [lrwilson@gannett.com](mailto:lrwilson@gannett.com)

The full-time position offers a full benefits package including paid time off, paid holidays, dental, vision and health benefits, 401K, and so much more.

Don't let this opportunity pass you by - apply today!

Successful applicants must complete and pass a drug test and background check.

#### USA TODAY NETWORK

The USA TODAY NETWORK is the largest local to national media network in the country. Powered by integrated and award-winning news organizations with deep roots in 22 local communities, plus USA TODAY, the multiplatform news network informs and engages more than 10 million people every month through its diverse portfolio of online, mobile, and publishing products. To connect with us, visit [usa.todaynetwork.com](http://usa.todaynetwork.com)

USA TODAY NETWORK is an equal opportunity employer. We are a drug free, EOE employer. We are committed to a diverse workforce. We will consider all qualified candidates regardless of race, color, religion, gender, sex, age, marital status, personal or physical disability, sexual orientation, gender identity, family responsibilities, disability, education, national origin, or veteran status.

### Business Opportunity

### Business Opportunity

### Newspaper Carrier Opportunities

#### Wilson County

Call today for early morning routes in the following areas:

Mt. Juliet

Contact: Joe Proctor

Email: [refiredgijoe@aol.com](mailto:refiredgijoe@aol.com), Phone: 615-339-9935

Lebanon/Watertown

Contact: Joe Proctor

Email: [refiredgijoe@aol.com](mailto:refiredgijoe@aol.com), Phone: 615-339-9935

### Homes

BARFIELD: 3 bdr car port. 5 mi I No pets pref. \$11 lease. Avail 7

### Homes



Townhouse House House Room

Pictures & I @ [www.Lind615-89](http://www.Lind615-89)

Attention H We have a w pre-qualified r

PROPERTIES PE HOMES F

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# Supplemental #2

## -COPY-

TrustPoint Hospital

CN1606-024

**June 29, 2016**

**10:14 am**

**ANDERSON & BAKER**

*An Association of Attorneys*

**2021 RICHARD JONES ROAD, SUITE 120  
NASHVILLE, TENNESSEE 37215-2874**

**ROBERT A. ANDERSON**

**Direct: 615-383-3332**

**Facsimile: 615-383-3480**

**E. GRAHAM BAKER, JR.**

**Direct: 615-370-3380**

**Facsimile: 615-221-0080**

June 29, 2016

Phillip Earhart, HSD Examiner  
Tennessee Health Services & Development Agency  
Andrew Jackson Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, TN 37243

RE: Supplemental Information #2: Certificate of Need Application CN1606-024  
TrustPoint Hospital

Dear Phillip:

Enclosed are three (3) copies of responses to your second set of supplemental questions regarding the referenced Certificate of Need application. If you have any additional questions, please contact me.

Sincerely,

  
E. Graham Baker, Jr.

Enclosures as noted

**AFFIDAVIT**

STATE OF TENNESSEE  
COUNTY OF DAVIDSON

NAME OF FACILITY: TrustPoint Hospital (CN1606-024)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
Signature/Title Attorney at Law

Sworn to and subscribed before me, a Notary Public, this 29<sup>th</sup> day of June, 2016;  
witness my hand at office in the County of Williamson, State of Tennessee.

  
\_\_\_\_\_  
NOTARY PUBLIC

My Commission expires: 3-3-20



**1. Section C, Need, Item 1. (Service Specific Criteria-Acute Bed Services)**

Since the applicant is licensed as an acute care hospital by the Tennessee Department of Health, please address all the service specific criteria for acute bed services for the addition of acute beds to the hospital's license.

**Response:** Please see *Supplemental Acute Care Bed Need Services*, and the accompanying acute care bed need chart supplied by the Tennessee Department of Health.

**2. Section C, Need, Item 5**

The following chart showing historical utilization of the primary and contiguous area is noted. However, please calculate the last column as % change in patient days 2012-2014 rather than the difference in percentage points.

**2012-2014 Regional Area Acute Care Hospitals Inpatient Psychiatric Beds**

| Facility                             | County     | 2014<br>Licensed<br>Beds | Patient Days   |                |                | Licensed Occupancy |              |              | %<br>Change<br>in patient<br>days<br>2012-<br>2014 |
|--------------------------------------|------------|--------------------------|----------------|----------------|----------------|--------------------|--------------|--------------|----------------------------------------------------|
|                                      |            |                          | 2012           | 2013           | 2014           | 2012               | 2013         | 2014         |                                                    |
| Stones River                         | Cannon     | 22                       | 5,225          | 2,787          | 1,514          | 65.1%              | 34.7%        | 18.9%        | -71.0%                                             |
| TN Christian<br>(Skyline<br>Madison) | Davidson   | 102                      | 22,152         | 25,731         | 25,679         | 66.7%              | 75%          | 69.0%        | +15.9%                                             |
| St. Thomas                           | Davidson   | 23                       | 5,761          | 5,094          | 2,768          | 65.8%              | 58.2%        | 33.0%        | -52.0%                                             |
| Vanderbilt                           | Davidson   | 88                       | 28,201         | 27,459         | 25,019         | 88%                | 85.5%        | 77.9%        | -11.3%                                             |
| Centennial                           | Davidson   | 130                      | 29,943         | 45,381         | 31,227         | 62.1%              | 94.2%        | 65.8%        | +4.3%                                              |
| Summit                               | Davidson   | 0                        | 4,449          | 2,484          | n/a            | 61%                | 34%          | n/a          | n/a                                                |
| TrustPoint<br>Hospital               | Rutherford | 87                       |                | 9,937          | 15,199         |                    | 54.4%        | 47.9%        | n/a                                                |
| Rolling Hills                        | Williamson | 76                       | 22,705         | 24,157         | 21,207         | 77.8%              | 82.7%        | 76.5%        | -6.6%                                              |
| UMC                                  | Wilson     | 0                        | 8,500          | 7,239          | n/a            | 47.5%              | 40.5%        | n/a          | n/a                                                |
| <b>Area total w/o<br/>MTMHI</b>      |            | <b>528</b>               | <b>126,936</b> | <b>150,269</b> | <b>122,613</b> | <b>64.2%</b>       | <b>76%</b>   | <b>64.6%</b> | <b>+0.9%</b>                                       |
| MTMHI                                | Davidson   | 207                      | 60,614         | 60,819         | 64,670         | 55.4%              | 55.5%        | 85.6%        | +6.7%                                              |
| <b>Total</b>                         |            | <b>735</b>               | <b>187,550</b> | <b>211,088</b> | <b>187,283</b> | <b>61%</b>         | <b>68.7%</b> | <b>69.8%</b> | <b>+0.14%</b>                                      |

*Note: Some of the above data may be suspect, as some patient day utilization figures may be higher if mental health care was reported by the hospital as alcohol-related care on the JARs. Utilization figures on the above chart are taken from the mental health section of the JARS, only, and do not include alcohol-related patient days.*

**3. Section C, Economic Feasibility, Item 2**

It is noted the project will be financed through a revolving line of credit. Please revise page 37 and submit a replacement page.

The funding letter from the Bank of America of the availability of \$57.3 of a \$300 million dollar revolving line of credit is noted. However, please submit a revised letter from the Bank of America that identifies the expected interest rate, term of the revolving line of credit, and any anticipated restrictions or conditions.

**Response:** Please see Replacement page 37 and *Supplemental C.EF.2*.



**ACUTE CARE BED NEED SERVICES**

1. The following methodology should be used and the need for hospital beds should be projected four years into the future from the current year:

Using the latest utilization and patient origin data from the Joint Annual Reports of Hospitals and the most current population projection series from the Department of Health, perform the following:

Step 1

Determine the current Average Daily Census (ADC) in each county.

$$\text{ADC} = \frac{\text{Patient Days}}{365 \text{ (366 in leap year)}}$$

Step 2

To determine the service area population (SAP) in both the current and projected year:

- a. Begin with a list of all the hospital discharges in the state, separated by county, and showing the discharges both by the county where the patient actually lives (resident discharges), and the county in which the patient received medical treatment.
- b. For the county in which the hospital is (or would be) located (service county), determine which other counties have patients who are treated in your county (resident counties). Treat all of the discharges from another state as if that whole state were a single resident county. The total discharges of residents from another state should be calculated from state population estimates and the latest National Center for Health Statistics southeastern discharge rates.
- c. For each resident county, determine what percent of their total resident discharges are discharged from a hospital in your service county (if less than one percent, disregard).
- d. For each resident county, apply the percentage determined above to the county's population (both projected and current). Add together the



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resulting numbers for all the resident counties and add that sum to the projected and current population of your service county. This will give you the service area population (SAP).

Step 3

Determine projected Average Daily Census as:

$$\text{Projected ADC} = \text{Current ADC} \times \frac{\text{Patient SAP}}{\text{Current SAP}}$$

Step 4

Calculate Projected Bed Need for each county as:

$$\text{Projected Need} = \text{Projected ADC} + 2.33 \times \text{Projected ADC}$$

However, if projected occupancy:

$$\text{Projected Occupancy} = \frac{\text{Patient ADC}}{\text{Projected Need}}$$

is greater than 80 percent, then calculate projected need:

$$\text{Projected Need} = \frac{\text{Projected ADC}}{.8}$$

**Response:** All of the recommended computations above have been performed by the Tennessee Department of Health, Division of Policy, Planning and Assessment, Office of Health Statistics, which published a report entitled “ACUTE-CARE BED NEED PROJECTIONS FOR 2016 AND 2020, BASED ON FINAL 2014 HOSPITAL JARS” on September 17, 2015. This three page report is attached to this supplemental response.

The chart below summarizes information for Bedford and Rutherford Counties:

**Select Data for Bedford and Rutherford Counties**

|                       | Bedford | Rutherford | Total   |
|-----------------------|---------|------------|---------|
| Inpatient Days        | 6,206   | 97,365     | 103,571 |
| ADC                   | 17      | 267        | 284     |
| Current Need          | 27      | 334        | 361     |
| Svc Area Pop 2014     | 14,819  | 253,489    | 268,308 |
| Svc Area Pop 2016     | 15,321  | 267,465    | 282,786 |
| Svc Area Pop 2020     | 16,326  | 295,916    | 312,242 |
| Projected ADC 2016    | 18      | 282        | 300     |
| Projected Need 2016   | 27      | 316        | 343     |
| Projected ADC 2020    | 19      | 311        | 330     |
| Projected Need 2020   | 29      | 389        | 418     |
| Licensed Beds 2014    | 60      | 491        | 551     |
| Staffed Beds 2014     | 52      | 490        | 542     |
| Licensed Bed Shortage | -31     | -102       | -133    |
| Staffed Beds Shortage | -23     | -101       | -124    |

*Source: Data in chart above taken directly from "ACUTE-CARE BED NEED PROJECTIONS FOR 2016 AND 2020, BASED ON FINAL 2014 HOSPITAL JARS" (the "Report") published on September 17, 2015 by Tennessee Department of Health, Division of Policy, Planning and Assessment, Office of Health Statistics.*

*Sources for the Report are listed as follows:*

*"Hospital Data from Final JAR-Hospitals Schedules F and G.*

*"Underlying Tennessee population estimated and projections from University of Tennessee, Center for Business and Economic Research (2015 series).*

*"Projections and estimates for TN border states obtained from those respective states."*

The data indicates that there is a surplus of 133 licensed beds in our service area (comparing Projected Need 2020 to Licensed Beds 2014).

2. New hospital beds can be approved in excess of the "need standard for a county" if the following criteria are met:
  - a) All existing hospitals in the projected service area have an occupancy level greater than or equal to 80 percent for the most recent Joint Annual Report. Occupancy should be based on the number of licensed beds that are staffed for two consecutive years.

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**Response:** Looking at just the 2014 JARs for all four hospitals in our service area, the average occupancy rate was 55.3%, meaning it is statistically impossible to have averaged 80% occupancy for the years of 2013 and 2014. The specific information is given below:

Bedford County:

|                  |                  |                    |                 |
|------------------|------------------|--------------------|-----------------|
| Heritage Medical | 60 Licensed Beds | 6,220 Patient Days | 28.4% Occupancy |
|------------------|------------------|--------------------|-----------------|

Rutherford County:

|                  |                   |                     |                 |
|------------------|-------------------|---------------------|-----------------|
| St. Thomas Ruth. | 286 Licensed Beds | 64,026 Patient Days | 61.3% Occupancy |
|------------------|-------------------|---------------------|-----------------|

|                     |                   |                     |                 |
|---------------------|-------------------|---------------------|-----------------|
| Tri-Star Stonecrest | 109 Licensed Beds | 19,793 Patient Days | 49.7% Occupancy |
|---------------------|-------------------|---------------------|-----------------|

|                  |                  |                     |                 |
|------------------|------------------|---------------------|-----------------|
| TrustPoint Hosp. | 96 Licensed Beds | 21,095 Patient Days | 60.2% Occupancy |
|------------------|------------------|---------------------|-----------------|

|       |                   |                      |                 |
|-------|-------------------|----------------------|-----------------|
| Total | 551 Licensed Beds | 111,134 Patient Days | 55.3% Occupancy |
|-------|-------------------|----------------------|-----------------|

The Applicant states that, while Medical Detox services (considered med-surg services) are performed at Trustpoint and Trustpoint is licensed as a General Hospital, the fact is the Applicant is more of a specialty hospital with an emphasis on psychiatric and rehab care. In fact, all of the beds being requested in this application are for psychiatric and rehab care. No new general med-surg services and/or beds are being requested in this application.

- b) All outstanding CON projects for new acute care beds in the proposed service area are licensed.

**Response:** To the best knowledge of the Applicant, there are no outstanding acute care beds awaiting licensure at Heritage Medical Center, St. Thomas Rutherford Hospital, or Tri-Star Stonecrest Hospital. The Applicant has twenty-eight (28) unimplemented beds, which was fully discussed in the original filing and is reported on page 9 of the CON application.

- c) The Health Facilities Commission (sic) may give special consideration to acute care bed proposals for specialty health service units in tertiary care regional referral hospitals.

**Response:** The Applicant states that, while Medical Detox services (considered med-surg services) are performed at Trustpoint and Trustpoint is licensed as a General Hospital, the fact is the Applicant is more of a specialty hospital with an emphasis on psychiatric and rehab care. In fact, all of the beds being requested in this application are for psychiatric and rehab care. No new general med-surg services and/or beds are being requested in this application. Due to the number of patients denied care at Trustpoint Hospital, we believe the application should be approved in order for the Applicant to continue meeting the needs of the patients in our service area.

# SUPPLEMENTAL #2

June 29, 2016

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## ACUTE-CARE BED NEED PROJECTIONS FOR 2016 AND 2020, BASED ON FINAL 2014 HOSPITAL JARS

| COUNTY     | 2014              |       | CURRENT<br>NEED | SERVICE AREA POPULATION |           |           | PROJECTED |           | PROJECTED |           | 2014 ACTUAL BEDS |         | SHORTAGE/SURPLUS |         |
|------------|-------------------|-------|-----------------|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|---------|------------------|---------|
|            | INPATIENT<br>DAYS | ADC   |                 | 2014                    | 2016      | 2020      | ADC-2016  | NEED 2016 | ADC-2020  | NEED 2020 | LICENSED         | STAFFED | LICENSED         | STAFFED |
| Anderson   | 47,552            | 130   | 163             | 93,508                  | 94,653    | 96,709    | 132       | 165       | 135       | 168       | 301              | 210     | -133             | -42     |
| Beford     | 6,206             | 17    | 27              | 14,819                  | 15,321    | 16,326    | 18        | 27        | 19        | 29        | 60               | 52      | -31              | -23     |
| Benton     | 1,811             | 5     | 10              | 2,189                   | 2,196     | 2,205     | 5         | 10        | 5         | 10        | 25               | 25      | -15              | -15     |
| Bledsoe    | 1,704             | 5     | 10              | 2,517                   | 2,549     | 2,608     | 5         | 10        | 5         | 10        | 25               | 25      | -15              | -15     |
| Blount     | 49,200            | 135   | 169             | 90,167                  | 92,507    | 97,047    | 138       | 173       | 145       | 181       | 304              | 238     | -123             | -57     |
| Bradley    | 35,287            | 97    | 121             | 75,061                  | 76,490    | 79,228    | 99        | 123       | 102       | 128       | 351              | 186     | -223             | -58     |
| Campbell   | 20,143            | 55    | 73              | 21,579                  | 21,719    | 21,938    | 56        | 73        | 56        | 74        | 120              | 106     | -46              | -32     |
| Cannon     | 4,764             | 13    | 22              | 3,927                   | 3,980     | 4,075     | 13        | 22        | 14        | 22        | 60               | 50      | -38              | -28     |
| Carroll    | 6,256             | 17    | 27              | 13,527                  | 13,555    | 13,568    | 17        | 27        | 17        | 27        | 115              | 68      | -88              | -41     |
| Carter     | 15,392            | 42    | 57              | 26,870                  | 26,998    | 27,197    | 42        | 58        | 43        | 58        | 121              | 74      | -63              | -16     |
| Cheatham   | 1,589             | 4     | 9               | 1,810                   | 1,834     | 1,874     | 4         | 9         | 5         | 10        | 12               | 12      | -2               | -2      |
| Chester    |                   |       |                 |                         |           |           |           |           |           |           |                  |         |                  |         |
| Claiborne  | 6,477             | 18    | 28              | 14,976                  | 15,204    | 15,606    | 18        | 28        | 18        | 28        | 85               | 33      | -57              | -5      |
| Clay       | 4,019             | 11    | 19              | 4,658                   | 4,678     | 4,706     | 11        | 19        | 11        | 19        | 36               | 34      | -17              | -15     |
| Cocke      | 7,756             | 21    | 32              | 15,442                  | 15,628    | 15,953    | 21        | 32        | 22        | 33        | 74               | 36      | -41              | -3      |
| Coffee     | 26,614            | 73    | 93              | 49,449                  | 50,349    | 52,077    | 74        | 94        | 77        | 97        | 214              | 158     | -117             | -61     |
| Crockett   |                   |       |                 |                         |           |           |           |           |           |           |                  |         |                  |         |
| Cumberland | 24,052            | 66    | 85              | 44,292                  | 45,587    | 48,048    | 68        | 87        | 71        | 91        | 189              | 122     | -98              | -31     |
| Davidson   | 852,914           | 2,337 | 2,921           | 1,589,580               | 1,637,847 | 1,730,677 | 2,408     | 3,010     | 2,544     | 3,180     | 3,786            | 3,286   | -606             | -106    |
| Decatur    | 2,700             | 7     | 14              | 4,301                   | 4,333     | 4,395     | 7         | 14        | 8         | 14        | 40               | 27      | -26              | -13     |
| DeKalb     | 3,354             | 9     | 16              | 6,567                   | 6,671     | 6,886     | 9         | 16        | 10        | 17        | 71               | 56      | -54              | -39     |
| Dickson    | 19,104            | 52    | 69              | 34,537                  | 35,265    | 36,644    | 53        | 70        | 55        | 73        | 157              | 120     | -84              | -47     |
| Dyer       | 13,013            | 36    | 50              | 30,964                  | 31,244    | 31,770    | 36        | 50        | 37        | 51        | 225              | 115     | -174             | -64     |
| Fayette    | 439               | 1     | 4               | 1,530                   | 1,603     | 1,742     | 1         | 4         | 1         | 4         | 46               | 10      | -42              | -6      |
| Fentress   | 7,283             | 20    | 30              | 10,882                  | 11,053    | 11,360    | 20        | 31        | 21        | 32        | 85               | 75      | -53              | -43     |
| Franklin   | 19,194            | 53    | 69              | 32,299                  | 32,519    | 32,894    | 53        | 70        | 54        | 71        | 173              | 124     | -102             | -53     |
| Gibson     | 2,537             | 7     | 13              | 4,054                   | 4,093     | 4,167     | 7         | 13        | 7         | 13        | 209              | 86      | -196             | -73     |
| Giles      | 0                 | 0     | 0               |                         |           |           |           |           |           |           | 95               | 81      |                  |         |
| Grainger   |                   |       |                 |                         |           |           |           |           |           |           |                  |         |                  |         |
| Greene     | 24,777            | 68    | 87              | 48,368                  | 49,158    | 50,611    | 69        | 88        | 71        | 91        | 240              | 173     | -149             | -82     |
| Grundy     |                   |       |                 |                         |           |           |           |           |           |           |                  |         |                  |         |
| Hamblen    | 37,221            | 102   | 128             | 71,124                  | 72,190    | 74,166    | 104       | 129       | 106       | 133       | 302              | 196     | -169             | -63     |
| Hamilton   | 390,829           | 1,071 | 1,339           | 717,133                 | 731,825   | 760,534   | 1,093     | 1,366     | 1,136     | 1,420     | 1,596            | 1,225   | -176             | 195     |
| Hancock    | 1,202             | 3     | 8               | 1,650                   | 1,659     | 1,673     | 3         | 8         | 3         | 8         | 10               | 10      | -2               | -2      |
| Hardeman   | 671               | 2     | 5               | 1,492                   | 1,492     | 1,492     | 2         | 5         | 2         | 5         | 51               | 15      | -46              | -10     |
| Hardin     | 5,638             | 15    | 25              | 14,312                  | 14,419    | 14,588    | 16        | 25        | 16        | 25        | 58               | 49      | -33              | -24     |
| Hawkins    | 2,949             | 8     | 15              | 7,626                   | 7,702     | 7,832     | 8         | 15        | 8         | 15        | 50               | 46      | -35              | -31     |
| Haywood    | 140               | 0     | 2               | 313                     | 311       | 306       | 0         | 2         | 0         | 2         | 62               | 36      | -60              | -34     |
| Henderson  | 1,167             | 3     | 7               | 5,628                   | 5,724     | 5,904     | 3         | 7         | 3         | 8         | 45               | 45      | -37              | -37     |
| Henry      | 13,599            | 37    | 52              | 29,816                  | 30,081    | 30,517    | 38        | 52        | 38        | 53        | 142              | 101     | -89              | -48     |
| Hickman    | 1,443             | 4     | 9               | 1,688                   | 1,723     | 1,789     | 4         | 9         | 4         | 9         | 25               | 25      | -16              | -16     |
| Houston    | 2,475             | 7     | 13              | 3,638                   | 3,696     | 3,812     | 7         | 13        | 7         | 13        | 25               | 25      | -12              | -12     |
| Humphreys  | 1,283             | 4     | 8               | 2,587                   | 2,605     | 2,633     | 4         | 8         | 4         | 8         | 25               | 25      | -17              | -17     |

# SUPPLEMENTAL #2

June 29, 2016

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## ACUTE-CARE BED NEED PROJECTIONS FOR 2016 AND 2020, BASED ON FINAL 2014 HOSPITAL JARS

| COUNTY     | 2014              |       | CURRENT | SERVICE AREA POPULATION |           |           | PROJECTED |           | PROJECTED |           | 2014 ACTUAL BEDS |         | SHORTAGE/SURPLUS |         |
|------------|-------------------|-------|---------|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|---------|------------------|---------|
|            | INPATIENT<br>DAYS | ADC   |         | 2014                    | 2016      | 2020      | ADC-2016  | NEED 2016 | ADC-2020  | NEED 2020 | LICENSED         | STAFFED | LICENSED         | STAFFED |
| Jackson    |                   |       |         |                         |           |           |           |           |           |           |                  |         |                  |         |
| Jefferson  | 6,679             | 18    | 28      | 16,845                  | 17,225    | 17,943    | 19        | 29        | 19        | 30        | 58               | 58      | -28              | -28     |
| Johnson    | 35                | 0     | 1       |                         |           |           |           |           |           |           | 2                | 2       |                  |         |
| Knox       | 456,616           | 1,251 | 1,564   | 809,583                 | 828,587   | 865,489   | 1,280     | 1,600     | 1,337     | 1,672     | 2,167            | 1,764   | -495             | -92     |
| Lake       |                   |       |         |                         |           |           |           |           |           |           |                  |         |                  |         |
| Lauderdale | 987               | 3     | 7       | 2,416                   | 2,439     | 2,484     | 3         | 7         | 3         | 7         | 25               | 25      | -18              | -18     |
| Lawrence   | 7,029             | 19    | 30      | 15,020                  | 15,155    | 15,382    | 19        | 30        | 20        | 30        | 99               | 80      | -69              | -50     |
| Lewis      |                   |       |         |                         |           |           |           |           |           |           |                  |         |                  |         |
| Lincoln    | 6,059             | 17    | 26      | 16,746                  | 16,955    | 17,340    | 17        | 26        | 17        | 27        | 59               | 59      | -32              | -32     |
| Loudon     | 7,104             | 20    | 30      | 13,884                  | 14,353    | 15,261    | 20        | 31        | 21        | 32        | 50               | 30      | -18              | 2       |
| McMinn     | 12,111            | 33    | 47      | 25,443                  | 25,796    | 26,443    | 34        | 47        | 35        | 48        | 190              | 108     | -142             | -60     |
| McNairy    | 2,621             | 7     | 13      | 7,703                   | 7,791     | 7,944     | 7         | 14        | 7         | 14        | 45               | 45      | -31              | -31     |
| Macon      | 3,179             | 9     | 16      | 5,197                   | 5,285     | 5,454     | 9         | 16        | 9         | 16        | 25               | 25      | -9               | -9      |
| Madison    | 178,297           | 489   | 611     | 294,911                 | 297,961   | 303,590   | 494       | 617       | 503       | 629       | 787              | 763     | -158             | -134    |
| Marion     | 10,301            | 28    | 41      | 5,973                   | 6,063     | 6,224     | 29        | 41        | 29        | 42        | 70               | 36      | -28              | 6       |
| Marshall   | 489               | 1     | 4       | 1,693                   | 1,735     | 1,816     | 1         | 4         | 1         | 4         | 25               | 12      | -21              | -8      |
| Maury      | 41,528            | 114   | 142     | 112,027                 | 114,164   | 118,175   | 116       | 145       | 120       | 150       | 255              | 194     | -105             | -44     |
| Meigs      |                   |       |         |                         |           |           |           |           |           |           |                  |         |                  |         |
| Monroe     | 9,561             | 26    | 38      | 18,126                  | 18,535    | 19,303    | 27        | 39        | 28        | 40        | 59               | 59      | -19              | -19     |
| Montgomery | 38,826            | 106   | 133     | 116,777                 | 122,525   | 134,068   | 112       | 140       | 122       | 153       | 270              | 220     | -117             | -67     |
| Moore      |                   |       |         |                         |           |           |           |           |           |           |                  |         |                  |         |
| Morgan     |                   |       |         |                         |           |           |           |           |           |           |                  |         |                  |         |
| Obion      | 10,742            | 29    | 42      | 21,344                  | 21,374    | 21,387    | 29        | 42        | 29        | 42        | 173              | 85      | -131             | -43     |
| Overton    | 14,342            | 39    | 54      | 19,453                  | 19,793    | 20,425    | 40        | 55        | 41        | 56        | 114              | 82      | -58              | -26     |
| Perry      | 5,068             | 14    | 23      | 3,607                   | 3,657     | 3,746     | 14        | 23        | 14        | 23        | 53               | 39      | -30              | -16     |
| Pickett    |                   |       |         |                         |           |           |           |           |           |           |                  |         |                  |         |
| Polk       | 0                 | 0     | 0       |                         |           |           |           |           |           |           | 25               | 25      |                  |         |
| Putnam     | 57,845            | 159   | 198     | 109,792                 | 112,514   | 117,517   | 162       | 203       | 170       | 212       | 247              | 243     | -35              | -31     |
| Rhea       | 3,513             | 10    | 17      | 7,913                   | 8,067     | 8,360     | 10        | 17        | 10        | 18        | 25               | 25      | -7               | -7      |
| Roane      | 8,466             | 23    | 34      | 16,710                  | 16,878    | 17,157    | 23        | 35        | 24        | 35        | 54               | 54      | -19              | -19     |
| Robertson  | 13,729            | 38    | 52      | 25,097                  | 25,927    | 27,557    | 39        | 53        | 41        | 56        | 109              | 66      | -53              | -10     |
| Rutherford | 97,365            | 267   | 334     | 253,489                 | 267,465   | 295,916   | 282       | 352       | 311       | 389       | 491              | 490     | -102             | -101    |
| Scott      | 2,064             | 6     | 11      | 4,116                   | 4,153     | 4,216     | 6         | 11        | 6         | 11        | 25               | 25      | -14              | -14     |
| Sequatchie |                   |       |         |                         |           |           |           |           |           |           |                  |         |                  |         |
| Sevier     | 15,281            | 42    | 57      | 41,595                  | 43,104    | 46,071    | 43        | 59        | 46        | 62        | 79               | 75      | -17              | -13     |
| Shelby     | 925,327           | 2,535 | 3,169   | 1,470,768               | 1,490,331 | 1,528,353 | 2,569     | 3,211     | 2,634     | 3,293     | 4,177            | 3,147   | -884             | 146     |
| Smith      | 6,272             | 17    | 27      | 8,328                   | 8,463     | 8,722     | 17        | 27        | 18        | 28        | 25               | 25      | 3                | 3       |
| Stewart    |                   |       |         |                         |           |           |           |           |           |           |                  |         |                  |         |
| Sullivan   | 203,866           | 559   | 698     | 381,048                 | 386,007   | 395,496   | 566       | 707       | 580       | 725       | 1,056            | 796     | -331             | -71     |
| Sumner     | 56,236            | 154   | 193     | 124,677                 | 128,714   | 136,567   | 159       | 199       | 169       | 211       | 303              | 254     | -92              | -43     |
| Tipton     | 3,041             | 8     | 15      | 10,809                  | 11,096    | 11,655    | 9         | 15        | 9         | 16        | 100              | 44      | -84              | -28     |
| Trousdale  | 2,126             | 6     | 11      | 2,731                   | 2,784     | 2,889     | 6         | 12        | 6         | 12        | 25               | 12      | -13              | 0       |
| Unicoi     | 3,923             | 11    | 18      | 5,848                   | 5,898     | 5,993     | 11        | 18        | 11        | 19        | 48               | 13      | -29              | 6       |

**SUPPLEMENTAL #2****June 29, 2016****10:14 am****ACUTE-CARE BED NEED PROJECTIONS FOR 2016 AND 2020, BASED ON FINAL 2014 HOSPITAL JARS**

| COUNTY     | 2014              |     | CURRENT<br>NEED | SERVICE AREA POPULATION |         |         | PROJECTED |           | PROJECTED |           | 2014 ACTUAL BEDS |         | SHORTAGE/SURPLUS |         |
|------------|-------------------|-----|-----------------|-------------------------|---------|---------|-----------|-----------|-----------|-----------|------------------|---------|------------------|---------|
|            | INPATIENT<br>DAYS | ADC |                 | 2014                    | 2016    | 2020    | ADC-2016  | NEED 2016 | ADC-2020  | NEED 2020 | LICENSED         | STAFFED | LICENSED         | STAFFED |
| Union      |                   |     |                 |                         |         |         |           |           |           |           |                  |         |                  |         |
| Van Buren  |                   |     |                 |                         |         |         |           |           |           |           |                  |         |                  |         |
| Warren     | 11,326            | 31  | 44              | 19,892                  | 20,053  | 20,348  | 31        | 44        | 32        | 45        | 125              | 125     | -80              | -80     |
| Washington | 152,970           | 419 | 524             | 197,424                 | 200,917 | 207,597 | 427       | 533       | 441       | 551       | 581              | 571     | -30              | -20     |
| Wayne      | 1,732             | 5   | 10              | 4,807                   | 4,843   | 4,902   | 5         | 10        | 5         | 10        | 80               | 32      | -70              | -22     |
| Weakley    | 4,753             | 13  | 21              | 13,981                  | 14,068  | 14,150  | 13        | 22        | 13        | 22        | 100              | 65      | -78              | -43     |
| White      | 5,635             | 15  | 25              | 8,676                   | 8,832   | 9,121   | 16        | 25        | 16        | 26        | 60               | 24      | -34              | 2       |
| Williamson | 29,873            | 82  | 103             | 96,527                  | 100,704 | 108,513 | 85        | 107       | 92        | 115       | 185              | 185     | -70              | -70     |
| Wilson     | 30,281            | 83  | 104             | 48,096                  | 49,783  | 53,045  | 86        | 108       | 92        | 114       | 245              | 245     | -131             | -131    |

Source: Tennessee Department of Health, Division of Policy, Planning and Assessment, Office of Health Statistics.

Sep 17, 2015

Hospital Data from Final JAR-Hospitals Schedules F and G.

Underlying Tennessee population estimates and projections from University of Tennessee, Center for Business and Economic Research (2015 series).  
Projections and estimates for TN border states obtained from those respective states.

**June 29, 2016****10:14 am****2. Identify the funding sources for this project.**

- a. Please check the applicable item(s) below and briefly summarize how the project will be financed. (*Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.*)

- X   A. Commercial loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;
- B. Tax-exempt bonds--Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;
- C. General obligation bonds—Copy of resolution from issuing authority or minutes from the appropriate meeting.
- D. Grants--Notification of intent form for grant application or notice of grant award; or
- E. Cash Reserves--Appropriate documentation from Chief Financial Officer.
- F. Other—Identify and document funding from all other sources.

**Response:** This project will be financed by a revolving line of credit furnished by Bank of America, and Acadia is the owner of the credit line.. The Applicant has furnished a letter attesting that the Applicant has sufficient assets to implement this project (see *Attachment C.EF.2*).



**10:14 am**

**Bank of America**  
**Merrill Lynch**

Global Commercial Banking  
Bank of America, N.A.

**June 28, 2016**

**Health Services and Development Agency**  
**500 Deaderick Street, Suite 850**  
**Nashville, TN 37243**

**RE: Trustpoint Hospital, LLC**

**To whom it may concern:**

This is to confirm that Acadia Healthcare Company, Inc., parent company of Trustpoint Hospital, LLC, has a \$300 million Revolving Credit Facility with a February 13, 2019 maturity that is available for general corporate purposes including general corporate purposes of Trustpoint Hospital, LLC. Bank of America, N.A. serves as the Administrative Agent on the credit facility that is syndicated to several banks. As of June 28, 2016, the Revolving Credit Facility had in excess of \$57.3 million available to be drawn, and the interest rate is currently LIBOR plus 3.25% resulting in an approximate interest rate of 3.7%. The availability of funds under the Credit Facility is subject to certain terms, conditions and covenants set forth in the credit agreement.

This letter is being delivered to you at the request of the company. Please note that the information set forth in this letter is subject to change without notice, and is provided in strict confidence to you for your own use only, without any responsibility, guarantee, commitment or liability on the part of Bank of America, N.A., its affiliates or any of its or its affiliates' directors, officers or employees. Bank of America, N.A. cannot provide any credit ratings or opinions of the creditworthiness of the Company and the above information does not constitute an opinion of Bank of America, N.A. of the Company's ability to successfully perform its obligations under any agreement it may enter into with you, Bank of America, N.A. or any other entity. Finally, Bank of America, N.A. undertakes no responsibility to update the information set forth in this letter.

Sincerely,



**Mark Hardison**  
**Senior Vice President, Healthcare**  
**Global Commercial Banking**  
**Bank of America, NA**  
**(615) 749-3026**  
**[e.mark.hardison@baml.com](mailto:e.mark.hardison@baml.com)**





# Supplemental #3 -Original-

TrustPoint Hospital

CN1606-024

**June 29, 2016**

**3:20 pm**

**ANDERSON & BAKER**

*An Association of Attorneys*

**2021 RICHARD JONES ROAD, SUITE 120  
NASHVILLE, TENNESSEE 37215-2874**

ROBERT A. ANDERSON

Direct: 615-383-3332

Facsimile: 615-383-3480

E. GRAHAM BAKER, JR.

Direct: 615-370-3380

Facsimile: 615-221-0080

June 29, 2016

Phillip Earhart, HSD Examiner  
Tennessee Health Services & Development Agency  
Andrew Jackson Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, TN 37243

RE: Supplemental Information #3: Certificate of Need Application CN1606-024  
TrustPoint Hospital

Dear Phillip:

Enclosed are three (3) copies of responses to your third set of supplemental questions regarding the referenced Certificate of Need application. If you have any additional questions, please contact me.

Sincerely,

  
E. Graham Baker, Jr.

Enclosures as noted

**June 29, 2016**

**3:20 pm**

**AFFIDAVIT**

STATE OF TENNESSEE  
COUNTY OF DAVIDSON

NAME OF FACILITY: TrustPoint Hospital (CN1606-024)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
Signature/Title Attorney at Law

Sworn to and subscribed before me, a Notary Public, this 29<sup>th</sup> day of June, 2016; witness my hand at office in the County of Williamson, State of Tennessee.

  
\_\_\_\_\_  
NOTARY PUBLIC  
My Commission expires: 3-3-20  


**1. Section C, Need, Item 5**

There was a mistake on the chart submitted earlier today as Supplemental Response 2. Please replace it with the following chart.

**2012-2014 Regional Area Acute Care Hospitals Inpatient Psychiatric Beds**

| Facility                             | County     | 2014<br>Licensed<br>Beds | Patient Days   |                |                | Licensed Occupancy |              |              | %<br>Change<br>in patient<br>days<br>2012-<br>2014 |
|--------------------------------------|------------|--------------------------|----------------|----------------|----------------|--------------------|--------------|--------------|----------------------------------------------------|
|                                      |            |                          | 2012           | 2013           | 2014           | 2012               | 2013         | 2014         |                                                    |
| Stones River                         | Cannon     | 22                       | 5,225          | 2,787          | 1,514          | 65.1%              | 34.7%        | 18.9%        | -71.0%                                             |
| TN Christian<br>(Skyline<br>Madison) | Davidson   | 102                      | 22,152         | 25,731         | 25,679         | 66.7%              | 75%          | 69.0%        | +15.9%                                             |
| St. Thomas                           | Davidson   | 23                       | 5,761          | 5,094          | 2,768          | 65.8%              | 58.2%        | 33.0%        | -52.0%                                             |
| Vanderbilt                           | Davidson   | 88                       | 28,201         | 27,459         | 25,019         | 88%                | 85.5%        | 77.9%        | -11.3%                                             |
| Centennial                           | Davidson   | 130                      | 29,943         | 45,381         | 31,227         | 62.1%              | 94.2%        | 65.8%        | +4.3%                                              |
| Summit                               | Davidson   | 0                        | 4,449          | 2,484          | n/a            | 61%                | 34%          | n/a          | n/a                                                |
| TrustPoint<br>Hospital               | Rutherford | 87                       |                | 9,937          | 15,199         |                    | 54.4%        | 47.9%        | n/a                                                |
| Rolling Hills                        | Williamson | 76                       | 22,705         | 24,157         | 21,207         | 77.8%              | 82.7%        | 76.5%        | -6.6%                                              |
| UMC                                  | Wilson     | 0                        | 8,500          | 7,239          | n/a            | 47.5%              | 40.5%        | n/a          | n/a                                                |
| <b>Area total w/o<br/>MTMHI</b>      |            | <b>528</b>               | <b>126,936</b> | <b>150,269</b> | <b>122,613</b> | <b>64.2%</b>       | <b>76%</b>   | <b>64.6%</b> | <b>-3.4%</b>                                       |
| MTMHI                                | Davidson   | 207                      | 60,614         | 60,819         | 64,670         | 55.4%              | 55.5%        | 85.6%        | +6.7%                                              |
| <b>Total</b>                         |            | <b>735</b>               | <b>187,550</b> | <b>211,088</b> | <b>187,283</b> | <b>61%</b>         | <b>68.7%</b> | <b>69.8%</b> | <b>-0.14%</b>                                      |

*Note: Some of the above data may be suspect, as some patient day utilization figures may be higher if mental health care was reported by the hospital as alcohol-related care on the JARs. Utilization figures on the above chart are taken from the mental health section of the JARS, only, and do not include alcohol-related patient days.*